

Global Economic Meltdown on Nigerian Capital Market

Biokoro Clifford¹ & Hasret Balcioğlu²

Abstract

The intensification of the crisis has noticeably exposed the vulnerability of the international financial system to short-term capital flow; the Nigerian capital market is not left out. This study therefore focuses on the effect of Global Economic Meltdown on the Nigerian Capital market. An econometric model is specified using market capitalization as a proxy for Nigerian capital market. The emphasis is on the quantitative influence of each of the predetermined variables on the endogenous. Data for regression analysis are collected from various secondary sources. The data used in this study covers the period of 1997-2008 to make the findings more recent and applicable to the present state of the Nigerian economy. The method of analysis includes the use of Ordinary Least Square (OLS), and other statistical test like F-test, T-test, R² and Durbin-Watson Statistic (DW). It has been concluded that market capitalization is positively influenced by FDI and external reserves.

Keywords: Economic Meltdown, Capital Market, Stock Exchange, Nigeria, Ordinary Least Squares (OLS)

JEL: E22, E44, E61

Introduction

As the world economic market continues to stumble and national economics fall into depression, the dread of global economic crisis has begun to upset people everywhere. Analysis connecting on the phenomenon has strained parallels with the Great Depression of the 1930s. Clearly, what began as an economic crisis in East in July 1997 has now metamorphosed into a full-blown global economic crisis? Latest development in Japan and Russia helped to extend the crisis.

The escalation of the crisis has radically exposed the weakness of the international financial structure to short-term capital flow, the guidelines of financing deregulation and financial liberalization being pushed by the west through International Monetary Fund, and World Bank.

As the wind of the financial crisis began to strike upon the world financial market, there has been some delayed detection of the hazard it posed by short-term capital flow. There has even been talk of developing new style for the global financial system. However, the leading industrial countries hands the International Monetary Fund have made it clear that no fundamental changes in the International system is being envision. In this situation nations badly affected by the financial crisis have been obligated to take their own stance to protect their economy. The authorities in Hong-Kong and Taiwan have also taken a dynamic role in the monetary market and position measures to control and segregate investors. It remains to be seen if such intervention symbolized a new prototype.

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While the financial system of advanced countries have been wrecked by the global economic and financial catastrophe and are facing downturn, a third world country like Nigeria is poised for a very rough and hard time. It is imprudent for any country not to recognize the challenges posed by the global dilemma early enough and take necessary measures to address them. The genesis of the trouble, its nature and how to alleviate its residual effect on every economy is vital. Alabi (2009) opines that the meltdown represent a worldwide recession that is slowing down the economic growth and development in nearly all sector and across the economic province of the world. The deep effect of the meltdown has been felt in the banking industry, capital market and other vital sector. The petroleum sector which is the major source of revenue for Nigeria seems to be the hardest hit following the crash in price of crude oil from 147 dollar per barrel in 2008 to between 40 and 44 dollar.

It is almost three years now that world has experienced its most brutal economic calamity that can never be forgotten, a track that has endangered more than seven billion population to set back years of development on growth, work creation and poverty reduction in developing countries. Although the calamity began in economic sectors in the developed world in the summer of 2008, it extend rapidly to many rising countries with Nigeria included also mainly affecting the nations mainly associated to global financial system through the means of trade, savings, workers payment, and capital markets.

Brief on Economic Situation after Technological Innovation and Globalization

According to the definition sited by business dictionary, as a word "global" means to envelop the whole planet thus from the above meaning it is likely to form some other thought like global market, global product, global management, global culture, global policy, global business and global capital. In other words, globalism is the coalition of national economy, politics and culture with the series of multinational progress. As a belief of globalization it can affect from one country to another Mittelam (2004). The concept of globalization since the 1980s has come with series of changes. The acceleration of communication and information technologies through technological improvements and present demand and arrangements caused by increased capital accumulation stimulated the globalization process. In this period of change, international trade and capital movements are liberalized, spread, accelerated and increased in volume and new investment alternatives are developed. The world economy and the global capital, growing by advantages of new production techniques and information economy has reached significant volumes whereby taking advantage of liberalization, unrestricted world trade, reduction in customs to the extent of adding billions of dollars to the global fiscal system. Bayo (2000) and Salimono (1999) stated that globalization tenders developing countries.

In Nigeria it gives chance to generate wealth through the export growth, to enlarge international deal in supplies and services and to expand entrance to fresh thoughts, technologies and other designed opportunities. This points to the fact that globalization influence all phase of Nigerian growth including her financial system. In core, globalization presents much prospect to Nigeria and other rising nations as well as other performers in the global financial system. In the past four decades, Nigerian economy has been mono-cultural since self-government and has so much relied on the western nations for its continued existence. Bayo (2000) stated that before the discovery of crude oil, Nigeria relied on farming for her income, which the government used to afford life supporting goods for its nationals.

The detection of crude oil by Nigeria manifested the turning point of Nigeria whereby putting agriculture at unnoticeable side. The core benefit is that globalization permits Nigeria to export crude oil, import goods, capital, savings and trade without limit. Awake (2002) pointed that globalization has enhance the world efficiently, systematically and ethnically.

This is because; it opens the economies to a broad range of consumption of supplies, new skill and information. These points to the facts that globalization presents a gift to the economies with the characteristics of eradicating poverty.

Regardless of all these positive effects, a lot of people still panic that globalization stands worries and tight spot to nations integrated to the economy maybe this might be to huge gap between the haves and have-not. It is noted that while the global assets has grown thus is becomes more concentrated in the channel of the opportune individual and few nations. Additionally, it is very clear that the amateurish and the inexperienced people as well as the marginalized Nigerian inhabitants profit less or nothing than those with talent and high level of education. David (1997) opines that the educated people with skills are superior and fit to meet the challenges of the competitive world.

Role of Financial Markets and Their Role in Economy

The financial system is a vital component of a modern economy. Neave (1998) explains that it is a framework of instruments, markets and institution in which exchanges of resources at a point in time and over time are accomplished. More specifically, the financial system facilitates payments for goods, services, productive resources; provide means for efficient accumulation of saved funds and also their allocation to investments uses. Financial systems include private institutions as commercial banks, savings and loan association and insurance companies. Financial market includes such markets such as stock market, bond market, money market and mortgage market. Financial market is known as the transmission mechanism between savers-lenders and borrowers-spenders. The existence of highly developed, widely accessible and smoothly functioning financial markets is of crucial importance in transmitting savings into the hands of those desiring to make investment expenditure. Those who can visualize and exploit potentially profitable investment opportunities are frequently not same people who generate current savings. If the financial transmission mechanism is underdeveloped, inaccessible or imperfect, then the flow of funds from household savings to business investments will be impeded and the level of economic activity will fall below its potentials.

Although all financial markets involve the process of transferring funds from savers to borrowers, the precise role played by different financial markets varies widely. These differences may be characterized by classifying the financial markets.

The most common classification is the distinction made between the money market and the capital markets. This distinction is based on maturity of financial assets purchased and sold in the financial markets. For example treasury bills, bank acceptance and other short-term maturity financial assets are type of instruments used by individuals, businesses and governments primarily to adjust their liquidity. In contrast, long-term instruments traded in the capital market include such financial claims as corporate bonds, stocks and mortgages.

Concept of Stock Exchange and Capital Market

The Wikipedia described a stock exchange as a marketplace for securities, a place where securities like bonds, stock and shares of varying kinds are traded openly, and where anyone can purchase or re- sale any of such securities relatively easily. Securities are documented as proof of possession or right to entitlement upon the possessions of the issuing institute, which may be a business firm of the issuing institute, government. These documented proofs generally have no stable or total worth but are traded on the stock exchange at prices which are personally determined by person buying or selling them. Stock exchange offers an opportunity for the movement of lasting investment funds from those with savings to participate in those areas of businesses, trade and administration where funds are absent for growth and other progressive purposes.

Stock exchange is also an apparatus which can sight and identify the signs of an approaching economic boom or deterioration long before the foreseen prosperity or failure really occurs.

The stock exchange is strong to change in economic situations and styles which are image of the total mindset or decisions of persons consuming the stock exchange, amongst which the qualified investment economist or analyst applies the highest upshot.

The Capital Market, according to Onyiuke (2010), is prefabricated up of markets and institutions, which assist the issuance and secondary trading of long – term financial instruments. She argued that the capital market, unlike the money market which functions basically to wage short-term funds, provides funds to industries and governments to meet their long term capital requirements, such as financing of fixed investments – buildings, plants, machinery, bridges.

One of the key instruments of progress and growth for any economy is the capital market, because it lodges certain organizations for establishment, custodianship, circulation, exchange of financial assets and administration of long-standing liabilities. Any economy without a capital market cannot grow since the market is responsible for long-term growth capital formation and allocation to development. Earlier in 1959, nearly all official saving and payments in Nigeria were in investment system. The nation's main investment balance was put in on London Stock Exchange frequently through London stockbrokers. Nigeria investment market successfully arose to being with the founding of Lagos Stock Exchange in 1960 which began actual trading in 1961. The Nigeria Stock Exchange was fused under the companies Decree as an association, inadequate by shares originally, but became a company limited by assurance in 1990. It benefit initial financial support from the Central Bank of Nigeria (CBN) though a yearly grant.

Global Economic Meltdown

According to Rodrigues (2010), global economic meltdown is characterized as a disruption to financial markets in which adverse selection and moral hazard problems become much worse so that financial market are unable to efficiently channel funds to those who have the most productive investment opportunity. As a result, financial crisis can drive the economy away from its original financial equilibrium. This also means that the economy of a country is in a wrong position; it has high inflation, drop of property value, and high unemployment causing recession and depression. Global economic meltdown is a current issue since it has a worldwide consequence, it indicates near calamitous situation demanding insufficiency or unavailability or else available utilizable resources, thus weakening governments or political leaders from meeting their crusade pledges, objective, strategy and programmers. It has much repercussion for both developed and developing and underdeveloped economies. Its symptoms are characterized by unexpected shutting down of companies, loss of jobs, the collapse of share prices, and press in consumer credit services, breakdown credit facilities among others.

Nigeria is a developing country which is not left out. The repercussion is surfaced in the area of collapse in share prices, declining revenues, and dividends from limited straight investments by developed nations.

The global impact of the crisis is a direct product of technological uprising, which fused the world through the internet, universal electronic medium like the Cable News set-up, and latest Technologies like the cell phone, and others. They have ease interconnectivity of banks and stock exchange markets unanimously given that the earth is now a global community that is, what alarm one community quickly affects the neighbors. Economic situation in every nation are powerfully inclined by the growth of the world financial system. This is by passing through intercontinental trade, international production, and finance. Additional important tendons linking the financial system of different nations into one universal body include international movement, creating nomad labor strength, and the global diffusion of technologies. Thus, there is an affinity for worth of securities, bonds and shares in one nation to be affected by interest charge and monetary prices in others. Therefore instead of one country's interest charge being totally determined by its own situations, they have become the outcome of world forces.

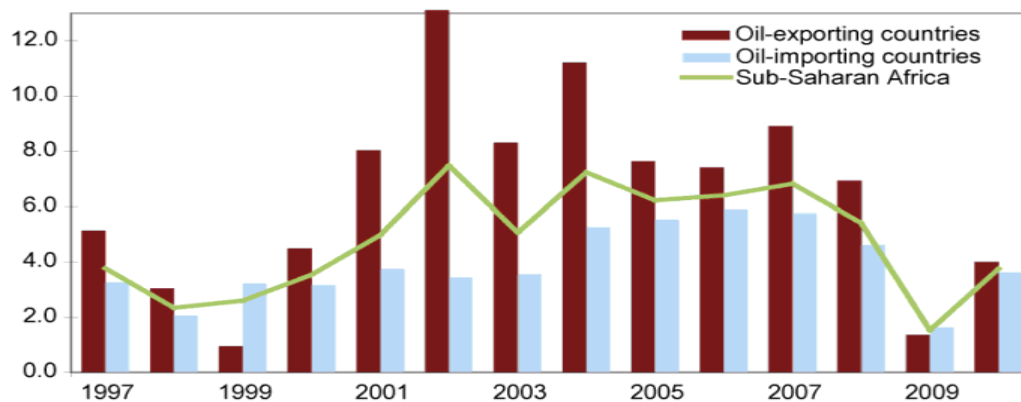
The financial crisis ignited for a while but really started to show its symptoms and signs in the middle of 2007 and into 2008.

Beginning with failure caused by misapplication of risk control for bad debts, fraud, huge financial firm in the United State and Europe face a credit crisis and a slowdown in economic activity. World political leaders, national ministers of finance and central bank directors coordinated their effort to reduce fears, but the crisis continued. It got to the extent that wealthiest countries have to come up with possible liberation package to bail out financial systems. At the end of October 2008, a currency crisis developed with investors transferring vast capital resources into stronger currencies such as yen, the dollar and the Swiss Franco, leading many economics to seek aid from the International Monetary Fund. The crisis arrived at a critical phase during the opening week of September 2008, classified by severely contracted liquidity in the international credit market and in solvency danger to asset banks and other financial institutions. When viewed in a global outlook and taking into report the doubts created by tentative trade, the end result of this crisis are wide. The crisis however, has by no means gotten a peak it could possibly destruct the very groundwork of the international financial system. The repression on people's lives in America and around the world are dramatic (Michael, 2008).The crisis is not restricted to the meltdown of financial markets, the real economy of the national and international heights, it's institute, it's dynamic structures are also in jeopardy. As the stock values collapse, lifelong household savings are eroded, not to mention pension funds. The financial meltdown is inevitably on consumer markets, the housing market, and more broadly on the process of investment in the production of goods and services. The world struggle to applicable fortune through financial operation was the heavy strength behind the crisis. It is the source of economic chaos and social destruction. Michael (2008) stated that, what prevails is the totally liberalized financial atmosphere branded by expensive speculative trade. In the awaken of 1987, there was a crisis in the US stock market, the US reserves was directed by Wall Street not to mid in the financial markets. Permissible of government interruption, the New York and Chicago trade were asked to launch their monitoring measures. The skill to control the market no longer rests with the State but with stock market executive that openly support the concern of the organization speculators. Since the birth of 1987 crisis, a new age of strong economic resistance has emerged. The financial deregulation in the United State has fashioned a background which favors an unequaled attention of monetary control. The economic fall down is closely connected to the loose progress of tremendously pressure of tentative choices.

The Crisis and Africa

Arieff (2010) states that, Sub-Saharan African has been strongly affected by the global recession, despite initial optimism that the global financial system would have few spillover effects on the continent.

Figure 2: Economic Growth in Africa - Percentage Change in GDP (1997-2009)



Source:Arieff (2010)

Oil exporting countries are Angola, Cameroon, Chad, Republic of Congo, Equatorial Guinea, Gabon and Nigeria.

According to Balchin (2009), the crash of the global financial catastrophe differs across African nations depending on their experience to the global economic system, their manufacture and export organization, and their ability to use strategy tools to pillow its undesirable effects. In a more general way, the impact on many African nations are likely to be alleviated in the sense that most nations on the continent are comparatively not linked to the global monetary system. Furthermore, the growing banking systems in many African nations, usually described by crude structures, careful monetary management policy, controls on overseas trade have secured the continent's monetary structures from the full effects of the crisis. This is not to conclude that Africa was protected from the impact of the crisis.

The global economic meltdown has affected most African countries through a variety of mechanism, or channels, including a decline in global trade, a drop in investments, falling remittances from oversea workers, and possible cuts in foreign aid. These channels are largely connected to Africa's real economy, rather than its financial sector Arieff (2010).

Ali (2009) pointed that the global financial crisis is affecting African countries in so many ways. The mainly important ones are the decrease in trade price and volumes. Mainly as a consequence of deteriorating prices and demand for their merchandise, a lot of nations have witnessed sharp drops in major goods export. Since latest expansion in Africa was motivated in part by goods export to China, Africa is particularly exposed to instability in china's economic growth. In 2007, China was the target for 13% of Africans export and about 10% of Africa's imports. This number illustrates a significant increase of Chinese trade and knots with Africa, mostly with nations who are rich in natural resources. According to US dept of commerce, China trade with Africa has increased in recent years. Analyst argued that China is reassessing some resource extraction mostly in nations forecast as politically unbalanced in the light of the global crisis Polgreen (2009). Additionally, China's investment ties with Africa has decreased because of the crisis, most Chinese companies have unrelenting to bargain economic acquisition with African Nations. The crisis is a setback to alleviate poverty in Africa which also compounded the 2008 food crisis.

This made a lot of African families more exposed to unexpected economic shock. Friedman (2009) predicted that the crisis will cause about 50,000 toddler death in Africa with most of these likely to be poor kids. Many analysts argued that economic crisis could have negative implications for Africa's political arena. Political stability is fragile mostly in countries where financial institutions are weak, post conflict countries, investors are worried and donors under tense pressure to save down financial commitments while their own country suffers from same crisis.

Global Economic Meltdown, a Shock to Nigerian Capital Market

The world is still mourning the global recession that has left even the most powerful country in the world (USA) groaning in economic pains. The emergence of Barack Obama as the president of that country merely assuaged the pangs of the recession; it never cleansed it off the meltdown's anguish. Since no country is an Island, not even in this era of globalization, the gracious impact of the economic meltdown ravaging the globe becomes inevitable. However, what distinguishes the sensible countries from insensitive ones is the degree of attention and action plan put in place to ensure that negative impact of the recession has minimal impact on the generality of their citizens. In view of this fact, it is pertinent to ask what Nigeria's government has to offer its citizens during this period of economy meltdown. The economic meltdown has caused the collapse of many investments and other multinational companies across the world. In Nigeria the crisis staggered on the existing insidious and complicated business surroundings. There are other numerous factors that are harsh to business development including high cost of petroleum product, interest rate and high tax on importation. The banking sector, capital market, public sectors and others are nothing immune to the unhelpful outcome of the global economic meltdown.

The global financial and economic meltdown tells the story of Nigeria's leadership in one brief revelation. It exposes them as plan less, and lacking in foresight. All these are wrapped up in their lack of contingency plans for the nation, its people and economy. Because of much concern of oil revenue that has be clouded their perception and the need to lay aside something for the rainy day. As the global financial meltdown drove close on the Nigerian capital market, the then Director-General, Security and Exchange Commission (SEC), Musa Al-Faki, said the capital market lost over three trillion naira in the last seven months.

Meanwhile, the Bankers Committee, the canopy body of the bank Chief policymaking and the supervisory bodies have ruled out the options of bailout for the banking industry, saying there is no need for such plan. Indicator by mid-March 2008 of the deteriorating price displayed that market capitalization plunged by 23.5% from N12.1 trillion in March 2008 when the price fell to N9.26 trillion by 15th of October 2008. Between January and 15th October 2008, it had gone down by 13.4% NSE. Share Index dropped by 31% from 63.016 points in March 2008 to 43,492.56 points on 15th October, 2008. Between January and 15th October 2008, it lost 25.7% the D-G said on the 20th of October, 2008. The Director General (D-G), who told the committee that capital market had rated N2.086 in trading value with a daily average of N8.62 billion, regretted the downturn and called for a concerted effort to reserve the effect.

The Central Bank of Nigeria and bankers committee also, on 20th October 2008, paid weeks of speculation of a bailout for Nigeria banks and the capital market as they categorically said there was no need for such an action. In spite of the global monetary crisis far-reaching across many economies of the world, the calamity which has consumed many big banks in the US and several government pumping hundreds of dollars in their assets market to reserve the affected banks and other companies on their exchange. But raised from an emergency meeting by Banker's committee meeting in Abuja, the CBN and managing directors of Banks announced that Nigerian economic index and the fundamental of Nigeria quoted companies were strong and did not warrant any form of bail out. According to the Director, Banking supervision of CBN, Mr. Ignatius Imala, he admitted that Nigerian banks had relationship with other banks across the globe but that such relationship arising from transaction should not be a reason for panic in Nigeria thus there is nothing to be bail out. Meanwhile, there are indications that the falling price of crude oil might decline further as the global economy approach what experts call the impending recession. Already, one of the fastest growing economies in the last decade and a major driver of increasing demand for crude Oil, China are experiencing a slowdown in its economic growth.

This bring to our attention that there is almost no cross-ownership of banks sandwiched between Nigeria and overseas countries, and there is hardly any local loan market for there to be a problem as found mainly in United Kingdom and United States.

It is tough to utter any influence. However, four issues on which the global situation may direct or indirect impact is as follow

1. Overseas portfolio investment withdrawal out and, as well as view of reduced overseas direct investment are certain to shorten investors' assurance in the economic wellbeing of Nigeria. This is mainly in a period where public-private partnership of big ticket items like power plants, rail-way and roads are being encouraged.
2. Bail to the notion loan problem overseas is the gap phenomenon of marginal borrowing or lending in Nigeria where investors borrow money from banks to participate in other monetary instrument with the confidence of making turnover all round. This may be one of the problems.
3. A general credit crisis from loaning organization for business requiring short and long-term borrowing, including banks' lending to each other.

4. Nigeria being an oil dependent nation, the see-saving price of crude oil and vision for economic slump in the developed world with its attendant reduced energy need, pair with attention in advanced energy resources. This is certain to give a pause to assurance in Nigeria's economy.

Now let's turn our attention to our foreign reserve and inquire what impact of the global crisis might be noting that:

- i. At a huge amount of about \$62 billion as of October, 2008 Nigeria's overseas reserve compare with those of countless nations in the world.
- ii. At the end of 2006, 87.3% of naira value of N5.617 trillion (\$42.3billion) was dominated in the US dollars, 8.7% in euro currency, 1.78% in British pound sterling, 0.95% in Japanese Yen and the remaining 0.127% in other currencies. At the end of 2007, these percentages stood at 86.22%, 5.92%, 2.19%, 5.57% and 0.12% respectively reflecting a significant increase in yen holding out of the increase N6.549 trillion (\$1.33 billion) for 2008.
- iii. On the first week of October, 2006, seven billion dollars were allocated to fourteen Nigerian banks and their fourteen global international organization partners. The fourteen aspects directors and their local equals were with below.

Table 1: Nigerian Banks and Their Foreign Partners

S/N	Global Aspect Partners	Nigerian Banks
1	Black Rock (UK)	Union Bank Nigeria Plc
2	JP Morgan (USA)	Zenith Bank Plc.
3	HSBC (UK)	First Bank Nigeria Plc.
4	UBS (Switzerland)	United Bank for Africa
5	Morgan Stanley (USA)	Guaranty Trust Bank Plc.
6	Fortis (Benelux)	Bank PHB Plc.
7	Investe (UK, South Africa)	Fidelity Bank Plc.
8	ABN Amro (Netherlands)	Access Bank Plc.
9	Corn Invest (Germany)	Oceanic Bank Plc.
10	ING (Netherlands)	Eco Bank Plc.
11	Bank of New York (USA)	Stanbic Bank Plc.
12	Crown Agent (UK)	Diamond Bank Plc.
13	BNP Paribas (France)	Intercontinental Bank
14	Credit Suisse (Switzerland)	IBTC chartered Bank

Source: Central Bank of Nigeria (2008)

The model was to ensure that Nigerian indigenous financial institute benefits both money-wise in terms of universal understanding and skills transfer. In Central Bank of Nigeria own words were to allow proficient running, broadening of investment and to control on the expertise of the overseas banks to transmute Nigeria banks into global financial institute. The CBN has by tradition saved the external reserve as bonds with foreign banks. This is the first time that it is assigning foreign aspect directors to manage part of its reserve in time with universal finest practice. In October 2007, a year after they became assets managers, Fortis, sideways by Banco Santander of Spain including Royal Bank of Scotland, acquired ABN Amro in transaction for more than 70 billion euros. Santander picked up the ABN Amor's Italian and Brazilian unites, while Royal Bank of Scotland acquires ABN's. But the transaction left Fortis outwardly overstrained much that on September 2008. Fortis, a huge banking and finance establishment, was partly nationalized with Belgium, Netherlands and Luxembourg financing a total of 11.2 billion Euros in the banks. Belgium decided 49% acquisition of Fortis's Belgium branch with the Netherlands responsible for the Dutch division.

Yet to confuse matters, before the opening of the business day, October 6th 2008. BNP Paribas and French Bank assumed control of the outstanding assets of Fortis following Dutch nationalization of the operations of the bank in Netherland. In conclusion, on Monday October 20th, France declared a 10.5 billion liberation strategy for Credit Agricole, Societal Generale and BNP Paribas. What the above information shows is that over whelming majority of our counterpart asset manager themselves have been having significant troubles managing themselves, and one may wonder what benevolent deadly financial exposure they have inflicted on over foreign banks. From the fourteen asset managers listed from the table above, ten of them have either gone penniless, been taken over or have been partly nationalized by their countries with just few left above the fray. It is of course only the Central Bank of Nigeria (CBN) that can answer the question of Nigerian foreign reserve safety. Our capital market is stumbles at the moment, out banks are stressed, our monoculture of oil continues to bedevil as resulting in a reported need to adjust government expenditure and upcoming budget accordingly and our foreign reserve situation remains an enigma wrapped in a mystery for now.

Methodology

Model Specification

Market capitalization plays a significant role in aiding economic activities with oil price, foreign reserve and foreign private investment as a subset. This is because Market capitalization has a systematic influence on them since it involves cash flows, thus the effect of public policies on economic growth can be measured by the increase in market capitalization. In this research, market capitalization (MC) is taken as a dependent variable.

Multiple linear regressions is carried out to forecast the values of a dependent variable, Y, given a set of D explanatory variables (X_1, X_2, \dots, X_D). In this explanation, the theory for multiple linear regressions can be represented using MC as the dependent variable while FR, OP and DFI as independent variables.

$$Y_i = B_0 + B_1X_{1i} + B_2X_{2i} + B_3X_{3i} + \dots + e_i$$

Bringing MC = f(FR, OP, DFI) as a replacement for the equation, the above function can be written in an econometric model as follows

$$MC = b_0 + b_1FR + b_2OP + b_3DFI + U$$

where;

MC = Market Capitalization

FR = Foreign Reserve

OP= Oil Price

DFI= Direct Foreign Investment

U = Statistical Error Term

b's = Parameters to be estimated

A priori expectation

$$b_1, b_2 > 0$$

$$b_3 > 0$$

Estimation Technique

The model specified above is a linear multiple regression model. The appropriate estimation technique to be used is the Ordinary Least Square (OLS) estimation (Hayashi, 2000). This is because it posses the desirable properties of consistency and asymptotic efficiency. In other words, the method yields the Best, Linear and Unbiased Estimate (BLUE) (Henderson, 1975) of parameters of the Single Equation Regression Model (SERM) (Lindley, 1987).

Statistical inference with linear regression model is also used. \bar{R}^2 , R^2 , F-test, T-test and Durbin-Watson Statistic.

T-test is a self regulating sample; it is used to test for important disparity among the means of two independent or unconnected samples of scores. The t-test presumes that the scores are calculated on at least a periodic scale. It is also frequently used as a test of the null hypothesis that the difference between two answers calculated on the same statistical unit has a mean value of zero. DWS is a test statistic used to identify the existence of autocorrelation from a regression analysis. An F-test is every numerical test in which the test statistic has an F-distribution beneath the null hypothesis. It is mostly used when matching up statistical models that have been fit to a data set, in order to recognize the model that most excellent fits the population from which the data were sampled. F-test mainly occurs when the models have been fit to the data using least squares.

R² is a numerical term illustrating how fit one term is predicting another. It determine how fit a regression real data points, an R² of 1.0 (100%) designates a perfect fit.

Empirical Analysis

Data Presentation

Table 2: Yearly Financial Data

Year	Market Capitalization (MC) (Billion Naira)	Nigeria's External Reserve (NER) (Billion Naira)	Direct Foreign Investment (DFI)	Oil Price (OP) (US & Barrel)
1997	281.9	262,198.5	123,831.9	15.68
1998	262.6	226,702.4	152,410.9	10.54
1999	300.0	546,873.1	154,190.4	24.93
2000	472.3	109,0148.0	157,505.6	22.58
2001	662.5	118,1652.0	161,441.6	19.35
2002	764.9	101,3514.0	166,631.6	30.12
2003	1,359.3	106,5093.0	176,478.6	30.3
2004	2,112.5	223,2837.0	249,220.6	40.39
2005	2,900.1	364,7998.7	324,656.7	58.34
2006	5,121.0	542,5578.6	481,239.1	58.96
2007	13,294.5	605,5717.0	552,498.6	93.68
2008	6,957.0	530,00.0	256,000.0	35.82

Source: Central Bank of Nigeria and Nigerian Stock Exchange (2008)

Presentation of Results

The results obtained are presented below:

Table 3: Presentation of Results

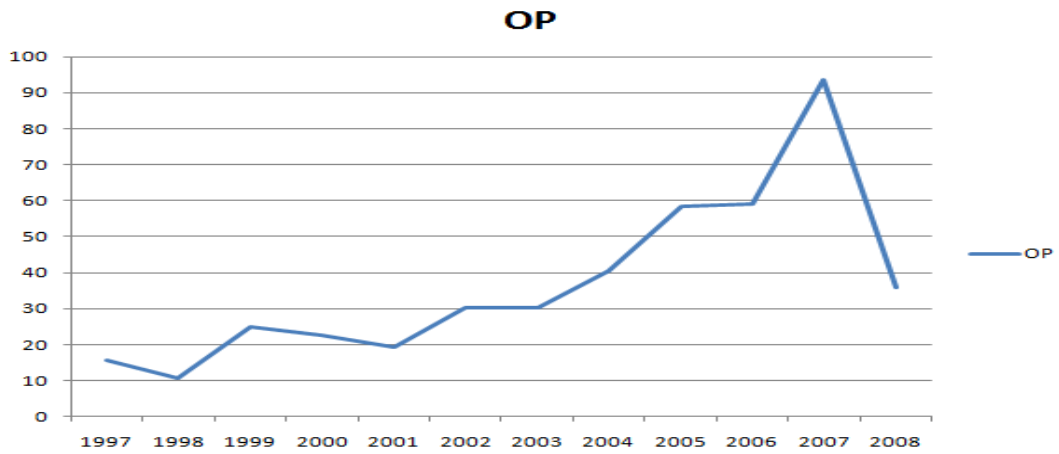
Dependent Variable	Repressors	Coefficient	t-Ratio
Market Capitalization	C	-2161.6	-2.5367
	FR	0.2784	0.50116
	DFI	0.016404	2.0651
	OP	-5.6583	-0.15414

Source: by Author

$R^2 = 0.97495$ $\bar{R}^2 = 0.89979$ F-stat $F(6, 2) = 12.9726$ DW-statistic = 2.2264

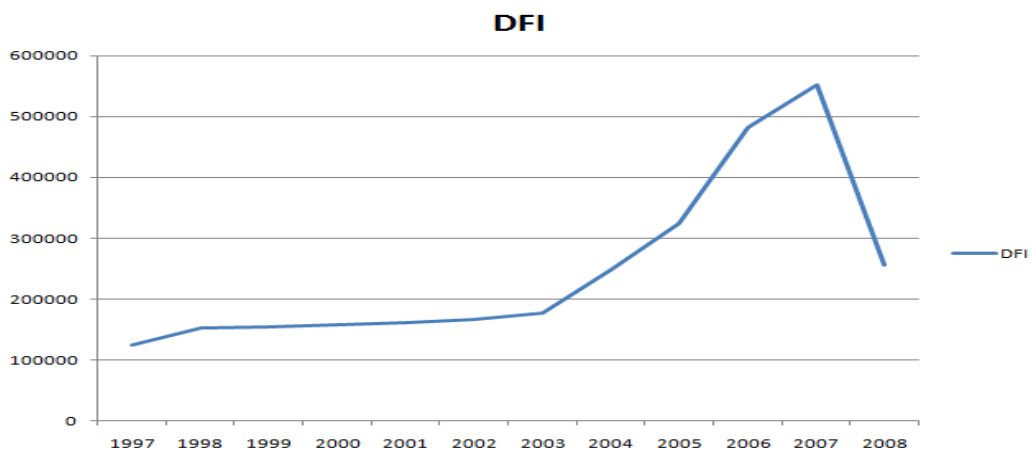
Graphical Presentation

Figure 3: Graphical Illustration of Data



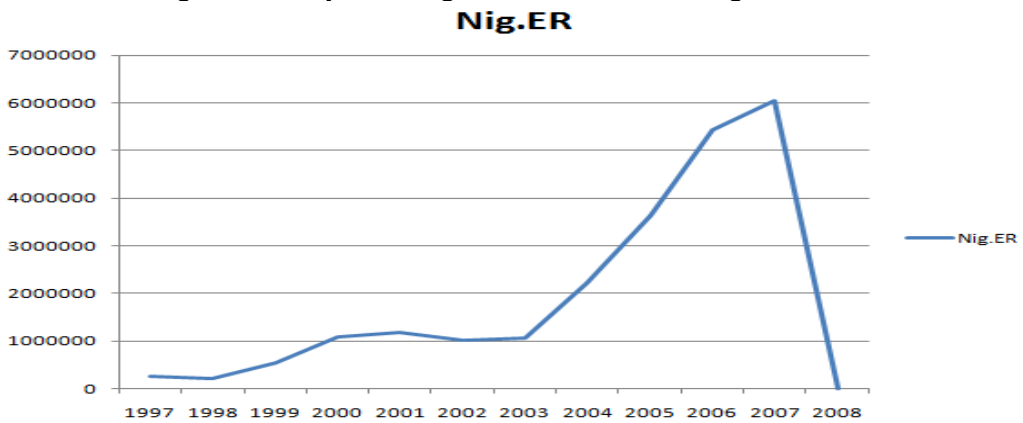
Source: by Author

Figure 4: Graph of Direct Foreign Investment



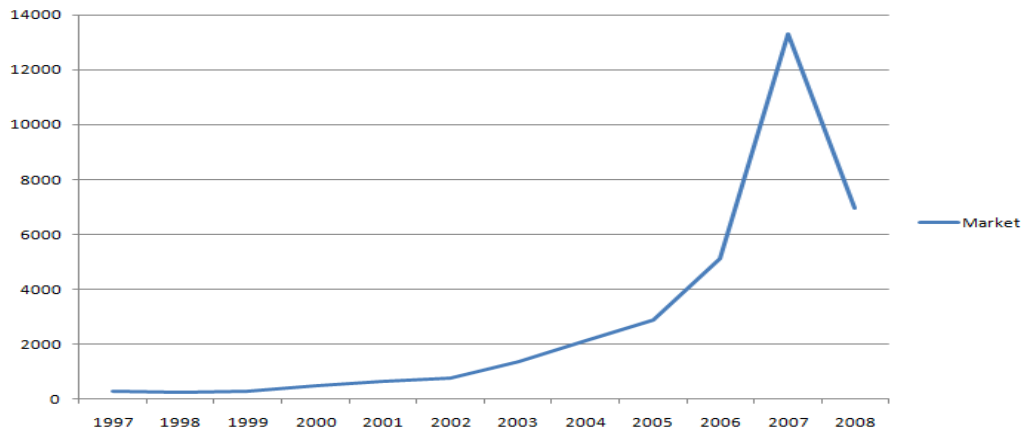
Source: by Author

Figure 5: Graph of Nigerian External Foreign Reserve



Source: by Author

**Figure 6: Nigerian Capital Market
Market**



Source: by Author

Interpretation of Results

The R^2 of 0.97495 illustrates that the three explanatory variables explain over 97% of the systematic variations in the dependent variable, MC.

After adjusting for the degree of freedom, the \bar{R}^2 value of 0.89979 shows that the explanatory variable explain over 89% of the systematic variation in the dependent variation. The remaining 11% is attributed to the stochastic error term U. This is a good fit.

The F-statistic of 12.9726 shows that the overall model is statistically significant at 5% level, thus the hypothesis of significant linear relationship between the dependent and independent variable is not validated. On the basis of a priori expectation, only oil price does not have the expected positive signs. Examination of the individual significance of the explanatory variable shows that the DFI is statistically significant at 10% level, since the observed value of 2.0651 is greater than the t-value of 1.796 at 10% level. FR and OP are not significant.

The Durbin- Watson statistic (DW), which is a test for first-order autocorrelation shows that the model is free from the problem of autocorrelation. This was indicated by the DW- statistic values 2.2264.

Result Analysis

From the interpretation above, foreign direct investment has the expected positive sign. This conforms to economic theory of a direct relationship between market capitalization and DFI. On the basis of the individual's significance, DFI is significant at 10% level. This implies that DFI has an impact on MC but effect is not too strong. Thus, we accept the alternative hypothesis (H_1) which states that foreign private investment has an impact on market capitalization.

External reserve has the expected positive sign. This conforms to the priori expectation of a positive relationship between FR and MC. But on the basis of the individual significance, FR has no impact on market capitalization. This could be as a result of the global economic meltdown which resulted in a fall in the Nigeria's foreign reserve. Thus, we accept that the null hypothesis (H_0) above which states that foreign reserve has no significant impact on market capitalization. Oil price do not have the expected positive sign which does not conform to the economic theory of a direct relationship between oil price and market capitalization. The result also shows that OP is not statistically significant, which implies that Oil price does not have an impact on market capitalization.

This might also be as a result of the global economic meltdown that led to a fall in oil price. Thus, we accept the null hypothesis (H_0) above which states that oil price has no significant impact on market capitalization.

Lastly, the graphs above all illustrates that emergence of global economic meltdown has a strong negative effect on Nigerian economy.

Conclusion and Recommendations

This study is aimed at empirically determining the impact of global economic meltdown on the Nigerian capital market for 1997-2008 periods. Market capitalization as a proxy for capital market used as the dependent variable with three explanatory variables as the determinant of market capitalization in Nigeria for the period studied. Some key findings may be summarized from the analysis above:

- i. Market capitalization (MC) is positively influenced by the foreign direct investment (DFI) for the period of 1997-2008. In other word, DFI stimulates MC but the effect is fairly strong.
- ii. External Reserves (FR) have a positive relationship with market capitalization (MC), but have little or no affect .This could be as a result of the global economic meltdown which affects Nigeria's foreign reserve adversely.
- iii. Due to the negative effect of the global economic meltdown on oil price, its impact on market capitalization was insignificant.

An economy without a capital market cannot grow since the market is responsible for the long-term growth capital formation and allocation to development. The intensification of the global economic meltdown has dramatically exposed the vulnerability of the international financial system to short term capital flow, Nigeria capital market is not left out. As a result of the sensitivity of the Nigerian capital market is to the growth and development of her economy, it is important for the Federal government to adjust in line with the recommendation , there is no doubt that the Nigerian capital market will be revived. Another episode of debt and financial crisis is revolving around Europe and United States of America of which if not taken care of, it will obviously find its end product in Africa and Nigeria as a number one victim.

Recommendations

The major engine of growth and development for any economy is the capital market. In other to revive the Nigerian capital, only a direct government intervention, characterized by physical funds injection is the possible solution. In other words, only physical injection of funds which will shore up prices can lift the capital market from its very low depth.

Investors in the Nigerian capital market have lost trillions of naira and much of these funds came from banks that loan heavily to investors and stock broking firms. This has increased banks non-performing loans/assets on one hand and has foisted the hangman's noose on investors and stock broking firms. The Federal government can intervene by acquiring those toxic aspects of cost, paying off banks. This will stem the tide of possible bank failures arising from their present capital exposure. It will also relieve the investors and stock broking firms of enough debt burdens in which they are entrapped and made incapable of making further investment.

The management of Nigerian Stock Exchange (NSE) and Central Bank of Nigeria (CBN) should work together in order to curtail or minimize banks utilization and assessment of the capital market to raise fund. Federal Government should also look in the direction of agriculture through commercial farming cluster and value chain, not for only food security, but for employment generation. By so doing, the high dependence on oil will be reduced.

Federal Government could utilize a Special Purpose Vehicle (SPV) or use the Ministry of Finance to commence buying of shares on the Nigerian Stock Exchange (NSE). This will serve the purpose of big investment for the government which will increase the demand segment of the capital market, leading to market recovery and also increase investor's confidence.

Finally nations have approved stimulus package to improve their economies but very little concentration has been paid to the need to prove demand in Nigeria and how to finance it. Nigeria needs to be completely put together into the coordinated effort to increase global aggregate demand.

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