



Bank recapitalization and stock market development in Nigeria

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Abstract

This study examined the effect of bank recapitalization on stock market development in Nigeria from 2004 to 2024. Market capitalization was used as a proxy for stock market development, while capital adequacy ratio, liquidity ratio, and total deposits were used as measures of bank recapitalization. The study adopted an ex-post facto research design and utilized secondary data sourced from the Central Bank of Nigeria Statistical Bulletin and the World Bank database for the period of study. Data were analyzed using descriptive statistics and Ordinary Least Squares (OLS) regression. The findings revealed that capital adequacy ratio and liquidity ratio exhibit positive and statistically insignificant effects on market capitalization in Nigeria at the 5% level of significance. However, total deposits ($B = 876.31$; $P = 0.0000$) exhibit a positive and statistically significant effect on market capitalization in Nigeria. The study concludes that bank recapitalization significantly influences stock market development in Nigeria, driven mainly by deposit mobilization. It recommends policies that enhance investor confidence, transparency, and efficient utilization of bank resources. These measures are expected to strengthen the transmission of banking-sector recapitalization into sustainable stock market development by improving financial intermediation, expanding investment opportunities, supporting deeper market participation, and strengthening market resilience.

Keywords: Bank recapitalization, Capital adequacy ratio, Liquidity ratio, Market capitalization, Total deposits.

JEL Classification: G21; G28; C01; C22.

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Contribution of this paper to the literature

This study contributes unique evidence by jointly examining capital adequacy ratio, liquidity ratio, and total deposits as bank recapitalization indicators and market capitalization as a stock market development measure in Nigeria. It extends existing evidence by empirically establishing the distinct contribution of deposit mobilization to stock market development.

1. Introduction

1.1. Background to the Study

Banks are the backbone of any modern economy, and in Nigeria, they play a pivotal role in driving economic growth and development. As financial intermediaries, they mobilize savings from surplus units and allocate them to deficit units, thereby stimulating productive investment (Akande, Samuel, & Iyodo, 2020). In Nigeria, banks contribute significantly to employment, the facilitation of trade, the expansion of credit to households and businesses, and the smooth operation of the payment system. They also serve as conduits for monetary policy transmission and are crucial to the stability of the financial system (Dikko, Alifiah, & Abdullahi, 2021). According to the Central Bank of Nigeria (2023) banking sector accounts for more than 65% of total assets in the Nigerian financial system, underscoring its systemic importance. A sound banking sector is therefore vital for national development and macroeconomic stability, making its health and efficiency a subject of critical policy interest.

Before the major banking reforms of the mid-2000s, the Nigerian banking sector was characterized by fragmentation, undercapitalization, weak corporate governance, and frequent distress. Many banks operated with low capital bases, rendering them incapable of financing large-scale development projects or withstanding economic shocks. By 2004, the sector had 89 licensed banks, many of which existed primarily to serve their owners' interests and had limited lending capacity. The proliferation of weak institutions led to systemic vulnerabilities, eroded public confidence, and hindered financial intermediation. According to Soludo (2004) only about 10 banks were considered safe and sound, and most had capital bases far below international standards. In addition, the sector suffered from high levels of non-performing loans, insider abuses, and lax regulatory oversight. To address these weaknesses and align Nigerian banks with global standards, the CBN initiated a major recapitalization program that would reshape the entire banking landscape (Okoye & Eneh, 2022).

The recapitalization reform was driven by the need to create a more robust and competitive banking sector capable of supporting Nigeria's long-term economic aspirations. In July 2004, the CBN under Governor Charles Soludo announced a new minimum capital requirement of ₦25 billion for all banks, up from ₦2 billion. This policy shift was informed by both domestic financial fragility and global trends toward stronger capital requirements, following the Basel Accords. The policy gave banks a deadline of December 31, 2005, to meet the new threshold, either through mergers and acquisitions or through the injection of fresh capital. The move was aimed at fostering financial system stability, increasing public confidence, enabling Nigerian banks to compete internationally, and facilitating their ability to support large-scale lending for infrastructural and economic development. It also sought to reduce the cost of banking operations through consolidation and to encourage better risk management practices. This forced consolidation was seen as a necessary shock to rescue the sector from looming collapse and reposition it for global competitiveness.

The recapitalization took place over an 18-month period between July 2004 and December 2005. By the end of the exercise, the number of banks had declined from 89 to 25 through mergers, acquisitions, and liquidations. This reform resulted in the emergence of stronger, more capitalized, and better-managed financial institutions. Many banks raised funds through the Nigerian Stock Exchange (NSE), leading to a surge in public interest and investment in the stock market during the period. The reform was largely successful in enhancing the capacity of banks to lend and withstand macroeconomic volatility. Private sector credit increased significantly in the post-recapitalization era, while bank profitability improved due to economies of scale and expanded market reach. However, some weaknesses remained, such as poor risk assessment and exposure to the capital market bubble that culminated in the 2008–2009 global financial crisis. Nonetheless, the recapitalization created the foundation for a more stable and efficient banking industry that could better support economic growth and development (International Monetary Fund, 2011).

The legacy of the 2004–2005 recapitalization continues to influence the Nigerian financial system. The exercise not only increased the average capital base of banks but also led to improvements in corporate governance, risk management, and regulatory compliance. The reform strengthened the CBN's supervisory role and laid the groundwork for the establishment of the Asset Management Corporation of Nigeria (AMCON) in 2010, which helped clean up non-performing loans and stabilize the system post-crisis. Today, the Nigerian banking industry is more resilient, with several banks ranked among the top in Africa by asset size and capital. The recent 2024 recapitalization directive by the CBN, which raised minimum capital to ₦500 billion for international banks, shows that recapitalization remains a vital policy tool for aligning the banking sector with global standards (Central Bank of Nigeria, 2024). It has also enhanced public trust and attracted foreign investors, making banks a cornerstone of financial sector development.

The Nigerian stock market traces its roots to the establishment of the Lagos Stock Exchange in 1961, which later became the Nigerian Stock Exchange (NSE) and was rebranded in 2021 as the Nigerian Exchange Group (NGX) after demutualization. The market has grown significantly over the decades, serving as a platform for companies, including banks, to raise long-term capital. Bank recapitalization had a profound impact on the development of the stock market. During the 2004–2005 reform, many banks turned to the stock exchange to raise capital through public offerings, which significantly increased market capitalization and trading volumes. This period saw heightened investor participation and enhanced market liquidity. However, the over-exposure of banks to capital market investments also contributed to the 2008 stock market crash. Despite this, the long-term effect of recapitalization has been largely positive: the stock market became more vibrant, more regulated, and better integrated with the broader financial system. Stronger banks have continued to play a key role in capital market development through their activities as issuers, market makers, and intermediaries. Thus, recapitalization not only stabilized the banking sector but also catalyzed the modernization and growth of the Nigerian stock market (Nigerian Exchange Group Plc, 2023; Securities and Exchange Commission, 2024).

1.2. Statement of Problem

Despite the 2004–2005 recapitalization policy aimed at strengthening Nigerian banks, several challenges have persisted in the post-reform era. Many recapitalized banks struggled with post-merger integration issues, poor risk management, and weak credit appraisal systems, which were exposed during the 2008–2009 global financial crisis. Some banks were overly exposed to the capital market, resulting in significant losses when stock prices crashed. Others became complacent with regulatory compliance or over-leveraged, leading to asset quality deterioration. While recapitalization improved the financial strength of banks, it also encouraged excessive risk-taking in some cases, which revealed that capital adequacy alone does not guarantee sound banking practices or effective corporate governance (Uchenna & Agbo, 2020).

Similarly, the Nigerian stock market faced significant setbacks following the recapitalization-driven boom. Although bank share offerings boosted the market's capitalization temporarily, the equity market became overheated with speculative investments, leading to a market crash by 2008. Investor confidence was severely eroded, and recovery has been slow despite regulatory interventions. In response, regulatory authorities such as the Central Bank of Nigeria (CBN), the Securities and Exchange Commission (SEC), and the Nigerian Exchange Group (NGX) implemented various reforms, including tighter corporate governance codes, improved investor protection frameworks, enhanced transparency standards, and the establishment of the Asset Management Corporation of Nigeria (AMCON) to mop up toxic assets. Nevertheless, the Nigerian stock market remains relatively shallow and volatile, with low liquidity, limited product diversification, and poor investor participation compared to emerging market peers (Eze & Ogiji, 2019; Onoh, 2014).

Several studies have examined the relationship between bank recapitalization and stock market development in Nigeria. Researchers like Azeez and Dada (2015) and Yusuf and Onikoyi (2018) highlighted the role of recapitalization in improving financial system stability and market performance. However, these studies often focused on short-term outcomes or macroeconomic implications without addressing the persistent issues of low market depth, weak investor trust, and regulatory inefficiencies. They also fell short of offering strategic, data-driven solutions to bridge the gap between banking sector reform and sustainable stock market development. This study, therefore, seeks to fill this gap by critically analyzing how bank recapitalization has impacted the Nigerian stock market over time, assessing both the successes and the shortcomings, and proposing actionable strategies to enhance capital market resilience and deepen its integration with the broader financial system.

1.3. Objectives of the Study

The broad objective of the study is to determine the effect of bank recapitalization on stock market development in Nigeria. The specific objectives are:

- i. To ascertain the effect of capital adequacy ratio (CAR) on market capitalization (MCAP) in Nigeria.
- ii. To ascertain the effect of liquidity ratio (LR) on market capitalization (MCAP) in Nigeria.
- iii. To ascertain the effect of total deposits (TD) on market capitalization (MCAP) in Nigeria.

2. Conceptual Review

2.1. Bank Recapitalization

Bank recapitalization refers to a financial strategy employed to strengthen the capital base of a bank. This involves injecting additional capital into the bank, typically through equity infusion, debt restructuring, or government intervention. Bank consolidation, also known as bank recapitalization, involves reducing the number of banks while increasing the capital size and concentration of the remaining ones (Basu, Druck, Marston, & Susmel, 2004; Laderman, 2003). This process leads to a consolidation of industry resources.

Aduloju, Awoponle, and Oke (2008) define recapitalization as a modification of a company or organization's capital structure. Aligned with Basel capital requirements, numerous empirical studies have concluded that bank recapitalization enhances banking efficiency, strengthens traditional lending practices, and improves a bank's resilience to economic pressures, ultimately fostering a sustainable banking sector and enabling international business (Berger & Bouwman, 2013; Francis, Hasan, & Wu, 2012; Repullo & Suarez, 2013). Similarly, Ashraf, Arshad, and Hu (2016) reported that the implementation of Basel III capital requirements, both in terms of quantity and quality, has significantly improved bank capital adequacy in response to the 2007–2009 Global Financial Crisis. Petrovic and Tutsch (2009) further suggested that distressed banks seeking capital restructuring can pursue either private or public recapitalization.

2.2. Stock Market

A stock market is a formal marketplace where securities such as shares or equities of companies are bought and sold. The Nigerian Stock Exchange (now Nigerian Exchange Group – NGX) plays this role by providing a platform for investors to trade stocks, bonds, and other financial instruments. The stock market facilitates the transfer of funds from savers to firms that need capital for investment, enabling efficient allocation of financial resources in the economy. It is also a key indicator of economic confidence, reflecting expectations about corporate performance and macroeconomic conditions. Stock market development goes beyond mere trading activities to include measures such as market capitalization, liquidity, turnover, and the number of listed securities. Several studies often emphasize market capitalization (total value of listed equities) and value traded as key indicators of how deep and active the market is. For example, in Nigeria, market capitalization and value traded have been linked to broader economic outcomes and are used as proxies for how well the stock market supports investment and growth.

Moreover, researchers highlight the stock market's role in mobilizing long-term finance and risk sharing as vital for private sector growth. Stock markets also serve informational and valuation functions by revealing prices that reflect expected future profit streams of firms. These functions help investors make rational decisions and potentially reduce the cost of capital for firms.

2.3. Bank Recapitalization and Stock Market Development

Bank recapitalization refers to the process of increasing a bank's capital base, typically by injecting additional funds through retained earnings, new equity, mergers, or rights issues. In Nigeria, the most significant recapitalization event occurred in 2004–2005, when the Central Bank of Nigeria (CBN) mandated that all banks increase their minimum paid-up capital (from ₦2 billion to ₦25 billion), leading to widespread mergers and acquisitions and deeper capital bases for surviving banks. This recapitalization process has an important link to stock market development. One channel is through capital market participation: banks often raise additional capital by issuing new shares to the public, engaging investors via rights issues or public offerings listed on the Nigerian Exchange. Such activities increase market capitalization and liquidity in the stock market and encourage broader investor participation. In Nigeria, many banks leveraged the stock market to meet recapitalization requirements, which helped enhance the volume of traded securities and broadened the investor base.

Empirical studies like Dikko et al. (2021), Okwoli, Jim-Suleiman, and Daboer (2018) and Obasan and Arikewuyo (2012) etc., focusing on Nigeria, show that bank recapitalization has had a positive effect on key stock market indicators. For instance, research finds that recapitalization positively (though sometimes statistically insignificantly) impacts market total market capitalization (TMC), All-Share Index (ASI), and stock market value (SMV), core metrics of stock market development, especially by strengthening investor confidence and encouraging market participation. This positive influence aligns with the notion that a strong, adequately capitalized banking sector supports financial stability and promotes deeper capital markets by channeling funds more effectively into productive investments.

3. Theoretical Review

3.1. Theory of Financial Intermediation

The theory of financial intermediation was propounded by Allen and Santomero (1997) and was first formalized in the works of Goldsmith (1969), Shaw (1973) and McKinnon (1973). The theory emphasizes the role of financial institutions, particularly banks, in bridging the gap between surplus and deficit units in an economy. Banks act as intermediaries by mobilizing savings from depositors and channeling them into productive investments that stimulate economic and market growth. In the context of bank recapitalization, the theory suggests that increasing a bank's capital base enhances its stability, risk-absorbing capacity, and lending ability. Well-capitalized banks are better positioned to offer credit to businesses, which can subsequently lead to increased corporate activities such as expansion, mergers, and public listings activities that drive stock market development (Aduloju et al., 2008).

Furthermore, the theory aligns with the notion that a sound and liquid banking sector fosters investor confidence, reduces systemic risks, and encourages both domestic and foreign investors to participate in the capital market. Recapitalization policies, by strengthening financial intermediaries, create a robust financial system that supports stock market operations through increased liquidity, efficient allocation of resources, and improved market depth (Akanke et al., 2020). Thus, the Financial Intermediation Theory provides a strong theoretical basis for examining how bank recapitalization contributes to stock market development, as both sectors are interdependent pillars of financial system growth.

The theory holds the following assumptions:

- i. Savers and borrowers do not have equal access to information, and financial intermediaries (banks) bridge this gap by evaluating and monitoring borrowers.
- ii. Banks and other intermediaries lower the cost of financial transactions compared to direct lending between savers and borrowers.
- iii. Financial intermediaries channel funds from surplus units (savers) to deficit units (investors) in a way that maximizes economic and market development.

The Financial Intermediation Theory is relevant to this study because it explains how strong and well-capitalized banks drive stock market development by efficiently mobilizing savings and channeling them into productive investments. Bank recapitalization enhances the stability, lending capacity, and risk management of banks, which in turn promotes corporate growth, public listings, and investor confidence. By reducing systemic risks and improving liquidity in the financial system, recapitalized banks create a favorable environment for stock market expansion, making this theory a suitable framework for understanding the relationship between bank recapitalization and stock market development (Akinkoye & Oyelami, 2014).

3.2. Empirical Review

Dikko et al. (2021) evaluated the effect of Bank Recapitalization's Proxies on the Performance of the Nigerian Banking Sector. This study employed the quantitative survey research design, stratified sampling method and Partial Least Squares (PLS) algorithm (bootstrap techniques) were used to test the hypotheses. Results obtained supported the hypothesis on the influence of mergers and acquisitions, equity issues, and intervention on the banks' performance.

Okwoli et al. (2018) empirically assess the effects of bank recapitalization on the profitability of Deposit Money Banks in Nigeria for the period 2005–2020 of fifteen banks quoted on the Nigerian Stock Exchange. ARDL technique was adopted for analysis. The findings from the study show that bank recapitalization has effects on returns on assets (profitability).

Abdulai (2022) assesses the impact of bank recapitalization on both credit availability to and equity investment in SMEs in Nigeria for the period 2007–2018. Using multiple regression method of estimation, the result revealed that bank recapitalization has improved the chance of SMEs to access credit from universal banks. It also has positive relationship between recapitalization and SMEs' performance.

Gopar and Eba (2019) examined effect of recapitalization on the growth of deposit money banks in Nigeria. Ordinary least squares (OLS) multiple regression statistical tool was adopted to establish the effect of explanatory on the dependent variable. Based on the analysis, the findings revealed thus: bank total assets had a significant impact on the growth of deposit money banks, total deposits had a positive impact on the growth of deposit money banks, and liquidity had a positive impact on the growth of deposit money banks.

Okoye and Eneh (2022) examined the effect of bank capitalization reforms on the financial performance of Nigeria deposit money banks. Regression analysis was used to analyze the data and test the hypothesis. The findings revealed that minimum capital requirements have a significant effect on the financial performance of deposit money banks in Nigeria.

Dikko et al. (2021) empirically examined the effect of recapitalization on the growth of deposit money banks in Nigeria. Using ordinary least squares (OLS) of multiple regression statistical tool to establish the effect of explanatory on dependent variable. Based on the analysis, the findings revealed thus: bank total assets had a significant impact on the growth of deposit money banks, total deposits had a positive money bank, and liquidity had a positive impact on the growth of deposit money banks.

Obasan and Arikewuyo (2012) ascertained whether the bank consolidation exercise in Nigeria had improved accessibility of finance to SMEs in Nigeria or not. This study uses empirical analysis (Ordinary Least Squares). The study found out that bank consolidation has failed to foster a vibrant and competitive SMEs sector that could enhance job creation and economic growth in Nigeria; thus, the need for government intervention.

4. Methodology

4.1. Research Design

The research adopted an ex-post-facto research design because the study aimed at examining the impact of the independent variables (CAR, LR and TD) and the dependent variable (MCAP), which is based on past events. The inability of the researcher to manipulate these variables is a basic feature of ex-post facto research design (Onwumere, 2005). Thus, it perfectly suits this study. The study employed secondary data, which was made up of time series data covering a period of 21 years from 2004-2024.

4.2. Model Specification

In order to test the hypotheses, the study adapts the model of Okoye and Eneh (2022) in a work titled ‘bank recapitalization reforms and financial performance of Nigerian deposit money banks’ in order to build the variables into a functional relationship. Time series data (2004-2020) were used in the case of the study. The Okoye and Eneh (2022) model was restated as:

PBT = β₁MCR_{it} + β₂TOA_{it} (1)

However, this study modified Okoye and Eneh (2022) model as follows;

MCAP = f(CAR + LR + TD) (2)

The model can be expressed in the econometric form as:

MCAP = α + β₁CAR_{it} + β₂LR_{it} + β₃TD_{it} + ε_{it} (3)

- Where:
- MCAP= Market Capitalization.
- CAR = Capital adequacy ratio.
- LR = Liquidity Ratio.
- TD = Total Deposit.
- α = Intercept of the regression line.
- ε = Error term.
- it = Time trend.

5. Data Analysis and Discussion of Findings

5.1. Descriptive Statistics

Table 1 shows the individual descriptive statistics for market capitalization (MCAP), capital adequacy ratio (CAR), liquidity ratio (LR), and total deposits (TD).

Table 1. Descriptive statistics of the variables.

Variables	Mean	Minimum	Maximum	Std. Deviation	N
MCAP	21952.58	2,112.50	75,202.90	18258.39	21
CAR	13.6276	1.8000	18.3000	4.5193	21
LR	51.5481	26.3900	104.200	17.586	21
TD	23.0762	6.45000	71.4500	18.887	21

The results in Table 1 show the rudimentary descriptive statistics with emphasis on mean, minimum and maximum values, and standard deviation. The mean represents the average value of the data set, while the maximum and minimum values indicate the highest and lowest observations, respectively. The standard deviation measures the extent to which the data deviates from the mean.

From the results, MCAP recorded a mean value of 21952.58, indicating the average level of stock market development over the study period, with a standard deviation of 18258.39 showing moderate fluctuations. CAR has a mean of 13.6276 and a standard deviation of 4.5193, indicating relative stability in capital adequacy levels across the years.

Furthermore, LR recorded a mean value of 51.5481 with a standard deviation of 17.586, suggesting steady growth in bank assets with moderate variability. TD shows a mean value of 23.0762 and a standard deviation of 18.887, indicating some degree of fluctuation in deposit mobilization.

5.2. Correlation Test

Table 2 depicts the relationship between the independent variables and the dependent variable.

Table 2. Correlation table.

Variables	MCAP	CAR	LR	TD
MCAP	1.000			
CAR	0.115	1.000		
LR	0.221	0.288	1.000	
TD	0.398	0.029	0.141	1.000

Table 2 shows the correlation results. From the result, capital adequacy ratio exhibits a weak positive correlation with market capitalization as indicated by the coefficient value of 0.115. The relationship between liquidity ratio and market capitalization is also positive but moderate with a coefficient value of 0.221. Furthermore, total deposits also show a moderate positive relationship with market capitalization, as indicated by the high correlation coefficient of 0.398. This implies that increases in total deposits are moderately associated with increases in stock market capitalization. Also, the relationships among the independent variables are not excessively high, indicating the absence of a multicollinearity problem in the model.

5.3. Regression Analysis

The results of the regression analysis are shown in Table 3.

Table 3. Regression results.

Variables	Coefficient	Std. Error	T-Statistic	P-Values
Constant	3423.202	6582.575	0.520040	0.6097
CAR	18.378	390.815	0.047	0.9630
LR	94.941	101.012	0.940	0.3604
TD	876.31	90.464	9.687	0.0000
R square (R²)	0.855			
Adj. R²	0.829			
F-Statistic	33.29			
Prob(F-Statistic)	0.000			
Durbin Watson	1.526			

Table 3 presents the OLS regression result. The result revealed that capital adequacy ratio has a positive but not significant relationship with market capitalization. This is because capital adequacy ratio has a positive coefficient value of 18.378 and a probability value of 0.9630, which is above the 0.05 (5%) level of significance. Also, liquidity ratio has a positive and not significant relationship with market capitalization. This is evident from its positive coefficient value of 94.941 and probability value of 0.3604, which is above the 0.05 (5%) level of significance. Finally, total deposit exhibits a positive and significant effect on stock market capitalization, as shown by its coefficient value of 876.310 and probability value of 0.0000, which is below the 0.05 (5%) level of significance. From the results in Table 3 above, the cumulative R-squared (R²) of 0.855 indicates that approximately 85.5% of the total variation in market capitalization is explained by capital adequacy ratio, liquidity ratio, and total deposits. This implies that only about 14.5% of the variation is explained by other variables not included in the model. The adjusted R-squared value of 0.829 shows that about 82.9% of the variability in the dependent variable is explained after adjusting for the number of predictors and sample size. The F-statistic value of 33.29 and its probability value of 0.0000 indicate that the model is statistically significant at the 5% level, implying that the model is fit and reliable for predicting market capitalization. Finally, the Durbin-Watson statistic of 1.526 suggests that there is no serious autocorrelation problem in the model, as the value is reasonably close to 2.

5.4. Test of Hypotheses

5.4.1. Hypothesis One

H₀₁: Capital adequacy ratio has no significant effect on market capitalization in Nigeria.

Decision Rule: Accept the null hypothesis when the probability value is above 0.05, but reject the null hypothesis when the probability value is less than 0.05. From the result, it is observed that capital adequacy ratio has a probability value of 0.9630, which is above the threshold of 0.05. This implies that the null hypothesis is accepted. Therefore, the study concludes that capital adequacy ratio does not have a statistically significant impact on market capitalization in Nigeria. Findings also revealed that capital adequacy ratio has a coefficient value of 18.378, which indicates that a 1% increase in capital adequacy ratio will lead to an approximately 18.378% increase in market capitalization.

5.4.2. Hypothesis Two

H₀₂: Liquidity ratio has no significant effect on market capitalization in Nigeria.

Decision Rule: Accept the null hypothesis when the probability value is above 0.05, but reject the null hypothesis when the probability value is less than 0.05. The findings revealed that liquidity ratio has a probability value of 0.3604, which is above the threshold of 0.05. This implies that the null hypothesis is accepted. Therefore, the study concludes that liquidity ratio has no statistically significant effect on market capitalization in Nigeria. Also, liquidity ratio has a coefficient value of 94.941, which shows that a 1% increase in liquidity ratio will lead to approximately a 95% increase in market capitalization.

5.4.3. Hypothesis Three

H₀₃: Total deposits have no significant effect on stock market capitalization in Nigeria.

Decision Rule: Accept the null hypothesis when the probability value is above 0.05, but reject the null hypothesis when the probability value is less than 0.05.

From the result, it is observed that total deposit has a probability value of 0.0000, which is below the threshold of 0.05. This implies that the null hypothesis is rejected. Therefore, the study concludes that total deposit has a statistically significant impact on stock market capitalization in Nigeria.

Furthermore, total deposit has a coefficient value of 876.31, which indicates that a 1% increase in total deposit will lead to approximately an 876% increase in market capitalization.

5.5. Discussion of Findings

This study tested three hypotheses to determine whether bank recapitalization significantly influences stock market capitalization in Nigeria. The findings revealed that capital adequacy ratio and liquidity ratio have no significant impact on market capitalization, while total deposits have significant effects.

The acceptance of hypothesis one implies that although capital adequacy ratio has a positive relationship with market capitalization, its effect is not statistically significant. This suggests that strengthening bank capital alone may not be sufficient to drive stock market development in Nigeria. The weak influence may be attributed to low investor sensitivity to capital adequacy levels and the dominance of other factors such as market liquidity and investor confidence.

On the other hand, the rejection of hypothesis two indicates that total assets have a significant but negative effect on market capitalization. This implies that higher liquidity improves banks' stability, which is generally viewed favorably by investors, hence the positive sign. However, excess liquidity can also indicate idle funds not being channeled into profitable investments, thereby weakening its impact on market capitalization. The stock market tends to respond more strongly to profitability indicators than to liquidity positions. Additionally, structural inefficiencies in the banking sector may prevent liquidity improvements from translating into strong market performance.

Furthermore, the rejection of hypothesis three shows that total deposits have a positive and significant effect on market capitalization. This implies that increased deposit mobilization enhances liquidity in the financial system and supports stock market growth. Deposits provide funds that can be channeled into investment activities, thereby increasing participation in the capital market.

These findings are consistent with the work of Akinkoye and Oyelami (2014) who found a significant relationship between bank recapitalization and stock market performance in Nigeria. However, the findings contradict those of Okolo (2015) and Dogarawa, Maude, and Ringim (2020) who reported no significant relationship.

6. Conclusion

This study examined the impact of bank recapitalization on stock market development in Nigeria, focusing on capital adequacy ratio, liquidity ratio, and total deposits as key indicators.

The findings revealed that capital adequacy ratio has a positive but insignificant effect on market capitalization, suggesting that improving bank capital base alone is not sufficient to drive stock market growth. Liquidity ratio was found to have a positive and not significant effect, indicating that the stock market tends to respond more strongly to profitability indicators than to liquidity positions. In contrast, total deposits have a positive and significant impact on market capitalization, highlighting the importance of deposit mobilization in enhancing liquidity and supporting investment in the stock market.

Overall, the study concludes that while bank recapitalization plays an important role in financial sector development, its effectiveness in promoting stock market growth depends largely on how bank resources are mobilized and utilized.

7. Recommendations

Based on the findings and conclusions of the study, the following recommendations are made.

- i. Regulators should complement recapitalization policies with measures that enhance investor confidence and improve market transparency. Banks should also strengthen corporate governance and risk management practices to ensure that increased capitalization translates into meaningful financial sector development.
- ii. Banks should adopt an optimal liquidity management strategy that balances solvency with profitability, ensuring that excess liquid assets are efficiently deployed into productive investments. This can be achieved by channeling surplus funds into high-yield but relatively safe assets to enhance returns.
- iii. Policymakers should strengthen depositor protection mechanisms to enhance public confidence in the banking system. In addition, banks should intensify deposit mobilization efforts through financial inclusion initiatives and innovative savings products to support stock market growth.

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