Monetary Policy and Stock Market Performance in Nigeria

Zormiidom Edward Nomate, Dr. Nneka Uchenna Nwankwo & Prof. Dennis Brown Ewubare
Department of Economics, Rivers State University, Nigeria
Email: zen4greatness@gmail.com
DOI 10.56201/ijebm.vol.11.no4.2025.pg12.32

Abstract
This study has empirically examined the effect of monetary policy on stock market performance in Nigeria. The study was evaluated empirically over a period of thirty-three years, that is, from 1990 to 2022. Monetary policy rate, broad money supply, liquidity ratio, cash reserve ratio and exchange rate were used as the proxies of monetary policy (independent variable) while stock market capitalization was used as the indicator of stock market performance (dependent variable). The study employed yearly time series data and these data were mainly extracted from Central Bank of Nigeria (CBN), World Development Indicator (WDI) of the World Bank and Nigerian Exchange Group (NXG) fact book. Augmented Dickey Fuller (ADF) unit root test, Bounds Cointegration test and Autoregressive Distributed Lag (ARDL) approach were the techniques of the data analysis adopted. The result of the study showed that monetary policy rate and liquidity ratio have negative but significant effect on stock market capitalization in Nigeria, broad money supply and exchange rate have positive and significant effect on stock market capitalization in Nigeria while cash reserve ratio has a negative and non-significant effect on stock market capitalization in Nigeria. Based on the findings, the study therefore concluded that monetary policy plays a vital role in improving stock market performance in Nigeria. The study recommended that Central Bank of Nigeria should reduce the current double digit monetary policy rate to a single digit to attract investments in the stock market.

1.0 INTRODUCTION

Stock markets are one of the relevant constituents of the financial system, which help firms or companies to raise capital by issuing their shares, and create an enabling environment which allows for trading of the shares. Thus, it is obvious that the stock market plays very critical role in economic growth and development of any nation. Therefore, the development of stock market is regarded as key and important vehicle in accelerating the growth of economy (Araoye, Ajayi & Aruwaji, 2018). The stock market plays major role as an economic institution which enhances the efficiency in capital formation and allocation. It enables both corporations and the government to raise long-term capital which enables them to finance new projects and expand other operations. Thus, the efficient functioning of the market paves way for the primary market by making investors more willing to purchase new securities in anticipation of selling such in the secondary market (Odo, Anoke, Onyeisi & Chukwu, 2017). The securities that are traded in the stock market have the nature that is so much influenced by monetary policy announcements, both globally and nationally. These monetary policy surprises have made stock markets so unpredictable and stock prices so unstable that both the developed and the emerging markets are found in the same saga. There are varying monetary policy tools used by the Central Banks of nations to manipulate the economy through the determination of credit accessibility and the amount of money that should be in circulation within a specified period (Omodero, Adetula & Adeyemo, 2021). With this

scenario, the monetary authorities try to adjust monetary policy tools to suit the macroeconomic goal of the government and if possible, jettison any fundamental that may distort financial system stability, reliability, stock market performance and economy in general. Since there exists functional relationship between monetary policy and market index, it becomes necessary for the Central Bank to determine the effect of monetary variables such as money supply, credit and interest rate on the performance of money market, and besides, a stock market is not always blessed with upbeat condition (Muktadir-Al-Mukit & Shafiullah, 2012). Nwoko, Ihemeje and Anumadu (2016) defined monetary policy as the actions taken by monetary authority, such as the apex bank of a nation, to regulate the value of money; supply and cost of money in the economy with the aim of achieving predetermine macroeconomic objectives. Monetary policy is also defined by the Central Bank of Nigeria (CBN) as mixture of processes intended to regulate value supply and interest rate as fees for money in a financial transaction, in agreement with the status of economic accomplishments (Nwoko, Ihemeje & Anumadu, 2016).

In furtherance, Omodero, Adetula and Adeyemo (2021) established that the interest rate changes, as one of the monetary policy channels, affect the stock market through dwindling of stock investment. When the interest rate is high, investors tend to reduce their investment commitment due to the high cost of finance. The stocks at this point become less attractive and result in the low stock market output. However, a low-interest rate helps to boost the stock market. Also, the money supply determines the level of money available for investors to spend. When the money in circulation is not at equilibrium, investors find it challenging to invest the little that is meant for household usage. The point is that monetary powers are encouraged to ensure that the money supply matches the level of economic activities in an economy and this in turn affect stock market performance (Omodero, Adetula & Adeyemo, 2021). In furtherance, Anaele and Umeora (2019) established that monetary policy rate, money supply and treasury bill rate are found to have significant positive effects on the stock exchange market in the lower regime while in the upper regime, money supply and treasury bill rate have significant negative effect on the stock market. Lastly, the findings of Nwokoye and Otu (2018) indicated that monetary policy, through the growth rate of money supply has impacted positively and significantly on the development of the stock market in Nigeria. Over the years, successive Nigerian government has viewed foreign investment as a vehicle for political and economic domination of Nigeria and hence the thrust of government policy (indigenization policy) through the Nigeria Enterprise Promotion Decree (NEPD) was to regulate foreign investment, with a maximum of 40% foreign participation allowed. This resulted in a decline in foreign private investment and therefore, slowed down growth in all sectors of the economy including the capital market and money market (Baghebo & Apere, 2021).

Statement of the Problem

One of the major objectives of monetary policy in Nigeria is price stability. However, despite the various monetary policies/measures adopted by the Central Bank of Nigeria (CBN) over the years, inflation still remains high and remains a major threat to every sector of the Nigeria economy especially the financial sector. However, whether the problem of inflation in Nigeria is due to mismanagement of monetary policy tools or structural deficiencies still remain a controversial matter. Also, in spite of many and frequently changing monetary and other macro-economic policies, the Nigerian stock market has been faced with a lot of challenges. For instance, in the stock market, there has been a decline in the value of shares resulting from the global financial and economic crisis. This has equally reduced the propensity to invest in the market. The poor

functioning of the stock market also deters foreign investors because the markets are illiquid and trading is expensive, thereby adversely affecting the economic growth and development of the country. Moreover, low market capitalization, delay in delivery of share certificate, double taxation, problem of macro-economic instability, poor public awareness about the workings of the stock market, underdevelopment of the stock market coupled with a high incidence of unethical practices have restricted the role of the stock market in promoting economic growth and development in Nigeria. In addition, Nigeria business environment has been marred by inconsistent power supply, insecurity, bad roads as well as weak and slow judicial process, among others. The Nigeria business environment is highly uncertain with inconsistencies in government policies and non-transparency of government operations. These unfavorable conditions may have discouraged foreign investors from investing in the capital and money market. The inflow of foreign investment into Nigeria may also have been limited by the infancy of Nigerian capital and money market. Although the markets have undergone considerable growth and development in recent years, they are not yet as huge, vibrant and sophisticated as their counterpart in the industrialized nations and as such, cannot compete favourably with them for investment funds. Moreover, the operational efficiency of the Nigerian stock market has been seriously hindered by several economic challenges in Nigeria, resulting in the inability of the market to actively mobilize idle funds to finance domestic investments as well as attract foreign capital to Nigeria. This results in low level of transactions in the Nigerian stock market, leading to the inability of firms to sufficiently mobilize long term funds to finance their expansion and/or modernization of technologies. These, coupled with the unstable and risky conditions that characterized the Nigerian investment environment, have reduced the liquidity, capitalization and dealings of the Nigerian stock market. Drawing from the identified problem, this study sought to examine the effect of monetary policy on stock market performance in Nigeria.

Aim and Objectives of the Study

The aim of this study is to examine the effect of monetary policy on stock market performance in Nigeria. The specific objectives of the study include:

i. To determine the effect of monetary policy rate on stock market capitalization in Nigeria.
ii. To evaluate the effect of broad money supply on stock market capitalization in Nigeria.
iii. To examine the effect of liquidity ratio on stock market capitalization in Nigeria.
iv. To evaluate the effect of cash reserve ratio on stock market capitalization in Nigeria.
v. To examine the effect of exchange rate on stock market capitalization in Nigeria.

2.0 Literature Review

Theoretical Framework

This section discusses the theories adopted in this study as follow:

Keynesian Theory

In 1936, John Maynard Keynes published his "General Theory of Employment, Interest and Money" and initiated the Keynesian Revolution. However, the role of money in an economy got further elucidation from (Keynes, 1930) and other Cambridge economists who proposed that money has indirect effect on other economic variables by influencing the interest rate which affects investment and cash holding of economic agents. Keynes maintained that monetary policy alone is ineffective in stimulating economic activity because it works through indirect interest rate mechanism. From the Keynesian mechanism, monetary policy works by influencing interest rate

which influences investment decisions of financial institutions such as banks and the public and consequently, output and income via the multiplies process as contained in the work of Solomon (2013). Keynes posits that government had the responsibility to undertake actions to stabilize the economy and maintain full employment and economic growth, using fiscal policies. He therefore recommends a proper blend of monetary and fiscal policies as at some occasions, monetary policy could fail to achieve its objective (Onyemaechi, 2015). The original Keynesian view that emerged from the Great Depression was challenged on two fronts. First, the early view that money and monetary policy were relatively unimportant was judged incorrect. Second, the basic premise of the Keynesian model was the inherent instability of the market system and the right and responsibility of the government to conduct an active stabilization policy. Some economists such as Friedman (1968) and Modigliani (1963) questioned this premise and argued that efforts to stabilize the economy through active monetary and fiscal policies were not likely to generate long-run improvement in the real performance of the economy, but were more likely to generate instability. In simple terms, the monetary mechanism of Keynesians emphasizes the role of money, but involves an indirect linkage of money with aggregate demand via the interest rate as symbolically shown below:

$$\downarrow OMO \rightarrow \downarrow R \rightarrow \uparrow MS \rightarrow \downarrow r \rightarrow I \rightarrow \downarrow GNP \quad (2.1)$$

Where,
OMO = Open Market Operation
R = Commercial Bank Reserve
MS = Stock of Money
r = Interest Rate
I = Investment
GNP = Gross National Product

On a more analytical note, if the economy is initially at equilibrium and there is open market purchase of government securities by the Central Bank of Nigeria (CBN), this open Market Operation (OMO) will increase the commercial banks reserve (R) and raise the bank reserves. The bank then operates to restore their desired ratio by extending new loans or by expanding bank credit in other ways. Such new loans create new demand deposits, thus increasing the money supply (MS). A rising money supply causes the general level of interest rate (r) to fall. The falling interest rates affects commercial bank performance and in turn stimulate investment given businessmen expected profit. The induced investment expenditure causes successive rounds of final demand spending by GNP to rise by a multiple of the initial change in investment. On the other hand, a fall in money supply according to Jhingan (2005) causes the general level of interest rate (R) to rise or increase thereby increasing the commercial banks profitability.

Modern Portfolio Theory

The Modern Portfolio Theory (MPT) is a theory of portfolio choice developed by Harry Markowitz (1952). It is an investment strategy that seeks to construct an optimal portfolio by considering the relationship between risk and return. It is a mathematical formulation of the concept of diversification of investment, aiming at selecting a collection of investment assets that have collectively lower risk than any individual asset. The Modern Portfolio Theory (MPT) is a sophisticated investment decision approach that aids in classifying, estimating and controlling both the kind and amount expected risk and return. There are a number of government activities and projects that can be organized into portfolios, each with its own budget consistent with the Modern Portfolio Theory (MPT) used in financial decision making and asset management under conditions

of risk and uncertainty (Khan & Hildreth, 2012). The theory attempts to maximize portfolio expected return for a given level of portfolio risk or equivalently minimize risk for a given level of expected return, by carefully choosing proportions of various assets. Modern Portfolio Theory (MPT) seeks to reduce the total variance of the portfolio return while assuming that investors are rational and markets are efficient. Mathematically, the Modern Portfolio Theory (MPT) formulates the concept of diversification in investing with the aim of selecting investment having collectively lower risks than any individual product. With regards to portfolio diversifications, the Modern Portfolio Theory (MPT) aids the firms in describing investment options in terms of the inherent risks and expected returns, determining the allocation of resources among classes of investments, reconciling risks and returns and measuring performance (Fabozzi, Gupta and Markowitz, 2012). The theory recommends that the risk of a particular stock should not be looked at on a standalone basis, but rather in relation to how a particular stock's price varies in relation to the variation in price of the market portfolio. When single period returns for the various securities are treated as random variables, it can be assigned expected values, standard deviations and correlations. These can be used to calculate expected returns and volatility of any portfolio so constructed with those securities (Alugbuo & Chika, 2020).

Empirical Review

Tubotamuno and Oladosu (2024) empirically determined the effect of monetary policy on the performance of the stock market in Nigeria. The time series data used for the study were sourced/extracted from the Central Bank of Nigeria (CBN) statistical bulletin. The techniques of data analysis adopted include descriptive statistical techniques, the ADF unit root test, and the ARDL approach. The results of the study showed that the monetary policy rate has a negative and nonsignificant effect on stock market capitalisation in Nigeria, the money supply and the treasury bill rate have a positive and significant effect on stock market capitalisation in Nigeria while the lending rate has a negative but significant effect on stock market capitalisation in Nigeria.

Mohammed and Sanusi (2024) investigated the impact of fiscal policy on stock market efficiency in Nigeria evidence from SVAR Modelling. The study used quarterly data between. Key finding is that shock to public debt caused more fluctuation to stock price in both the short-run and in the long-run by 13.2 per cent and 13.59, respectively. Shocks from government expenditure caused 9.6 per cents and 9.96 per cent fluctuation in stock price in the short and long-run, respectively. A one standard deviation positive shock or innovation to government expenditure caused stock price to fluctuate by 0.73 per cent and 0.75 per cents, respectively in the short and long-run. However, public debt appears to be an effective stock price tool to control and achieve stability in the capital market than the government expenditure and revenue.

Enang, Ele and Itoro (2024) examined the impact of fiscal policy on stock market performance in Nigeria. Utilizing secondary data from the national bureau of statistics Annual bulletin, the study analysed the effects of government spending, taxation policies, and government borrowing on the stock market. The Ordinary Least Squares (OLS) regression method was employed to determine the relationship between these fiscal policy variables and stock market performance. The findings revealed that government spending has a statistically significant positive relationship with stock market performance, accounting for 64.8% of the variability; the government taxation policies statistically significant effect on stock market performance accounts for 52.1% of the variability; the government borrowing significantly influence stock market performance in Nigeria at 75.6%. Government spending positively impacts the stock market by stimulating economic activities, while favourable taxation policies enhance investor confidence and market trends. Conversely,

excessive government borrowing can negatively affect the stock market due to higher interest rates and crowding out of private investment. Effective fiscal policy tools are shown to promote longterm growth and stability in the stock market.

Daneji, Umar, Yole and Gana (2024) examined monetary and fiscal policies and their impact on stock market performance. This research investigates the dynamic effect of monetary and fiscal policies and their impact on the stock market performance in Nigeria over the period 1981 to 2021. Employing the Autoregressive Distributed Lag (ARDL) model, the study aims to discern the long-run and short-run effects of key monetary and fiscal policy variables on stock market indices. The monetary policy variables include, money supply, while fiscal policy is represented by government expenditure and revenue. The ARDL framework allows for an examination of both short-term and long-term relationships, offering a comprehensive understanding of the intricate interplay between policy measures and stock market dynamics. The findings of this study confirmed a long run relationship between monetary, fiscal policies and market capitalization. Short and long run estimation revealed significant coefficients.

Nnoje and Okonkwo (2024) explored how the Nigerian stock market turnover ratio have been influenced by the fiscal policy of the government from 1990-2021. Data for the study which are government expenditures, government revenue, public debt and stock market turnover ratio were extracted from the Central Bank of Nigeria (CBN) statistical bulletin and the stock market annual reports. The method of data analysis used is the multiple regression model with the application of Ordinary Least Squares (OLS) technique. The major findings of the study reveal that fiscal policy variables contributes negatively and insignificantly to stock market turnover ratio in Nigeria for the period analyzed.

Nwogo (2024) investigated the effect of fiscal policy on stock market performance in Nigeria. The study adopted ex post facto research design. The data were analyzed using a number of empirical tests. The study adopted ex post facto research design and employed times series data sourced from the CBN statistical bulletin and the Nigeria Stock exchange group. Evidence of longrun relationship was found among the model variables through the Johansen test, and a fast speed of adjustment at 10.01% annually. The major findings of the study are: government capital expenditure has significant positive effect on the stock market performance in Nigeria; government recurrent expenditure has significant positive effect on the stock market performance in Nigeria; company income tax had significant negative effect on the stock market performance in Nigeria; and petroleum profit tax has significant negative effect on the stock market performance in Nigeria.

Ukpemeku and Olele (2024) explored the nexus between fiscal operations and Stock Market performance in Nigeria. Employing time series data spanning within the Vector Autoregressive modeling technique, results showed that fiscal operation measures (government expenditure and revenue) have varied effects on market capitalization (all-share index). Specifically, the study established that fiscal operations play pivotal roles in Stock Market performance in Nigeria.

Oseni and Oyelade (2023) investigated the effects of monetary and fiscal policies on economic growth in Nigeria using various economic variables. The study found that gross capital formation, total number of employees, and broad money supply have a positive and significant effect on gross domestic product (GDP), while lending interest rate has a negative and significant effect on GDP. The study recommended that the government should encourage more private investment in Nigeria by lowering the lending interest rate, which would lead to more borrowing by private investors and boost investment in the country.

Chukwunulu (2022) used Ordinary Least Square regression technique to unravel if monetary policy (money supply, interest rate and exchange rate) influences stock market performance in

Nigeria from 1986 to 2019. The results of the study indicated that money supply and exchange rate have positive and significant effect on stock market price movement whereas interest rate has insignificant negative effect on stock market price movement.

Eche, Edidiong, Pam and Ato (2022) examined the impact of monetary policy on manufacturing sector contribution to gross domestic product in Nigeria. The study spanned through 1985 to 2019. This study adopted Autoregressive Distributed Lag (ARDL) The result showed that in the short run (MPR) has a negative and significant impact on (MAN), while (DEL, LQR, INF and TRB) were found to exert positive and significant impact on (MAN). However, only (EXR) was found to exerting positive and insignificant impact on (MAN) for the period under review. While in the long run, (MPR) was also found to be negative and significant, while (EXR, DEL, and LQR) were found to be positive and insignificant. Incidentally, (INF and TBR) were found to exert positive and significant on the manufacturing sector contribution to gross domestic product in the long run. the study therefore concluded that manufacturing sector contribution to gross domestic product can be stimulated through effective and efficient monetary policy in both short and long run.

Emmanuel (2022) carried out a study that explicitly diged into the separated impact of fiscal and monetary policies as government stabilization policies on the Nigerian industrial sector performance as a real sector, from 1986-2021, using the ARDL Bounds Testing Approach. The data were filtered with use of Augmented Dickey Fuller unit root test while Johansen cointegration test was used to justify the long-run relationship among all included variables. Annual data were gathered from the Central Bank of Nigeria (CBN) Statistical Bulletin and World Bank Indicators (various issues). It was discovered that government stabilization policies are potent determinants on the industrial sector output in Nigeria both in the short-run and long-run..

Omodero, Adetula and Adeyemo (2021) evaluated the stock market reaction to monetary policy modifications in an emerging market using Nigeria as a case study. This study used data that cover a period from 1998 to 2018 to establish what the position is in recent times empirically. The data were collected on all share index, money supply, interest rate and exchange rate. The multiple regression results provided evidence that the money supply has a significant favourable influence on the all-share index. In contrast, the interest rate has an immaterial harmful effect on the stock market output. However, the result indicates that the exchange rate affects the stock market performance negatively, but the effect is insignificant.

Asiagwu, Utalor and Anaele (2021) empirically analyzed monetary policy and industrial growth in Nigeria with data spanning from 1996-2019. The Statistical Bulletin of the Central Bank of Nigeria (CBN) and World Development Indicators were used to compile the data. Descriptive statistics, Augmented Dickey Fuller (ADF) test, Granger causality, and Ordinary Least Square (OLS) were analytical tool used to test the hypotheses. EViews 9.0 is used as the statistical tool for this study and Log of Industry Sector Gross domestic product (LogINGDP) as the dependent variable, Lending Rate (LR), Deposit interest rate (DPIR) and Money Supply annual growth Rate (M2) as the independent/explanatory variables. The study concludes that lending rate (LR), deposit interest rate (DPIR) and money supply growth rate (M2) as proxies for monetary policy have significant impact on industrial growth of developing countries, Nigeria in particular. That is, monetary policy is an effective means of improving industry growth as well as growth of the economy.

Alugbuo and Chika (2020) investigated the effect of monetary policy on stock market performance in Nigeria for the period 1981-2018. While E-views 10 statistical software was employed in computing the result, time series data were obtained from World Bank national accounts data and OECD National Accounts data files and the study established that Lending interest rate had a

positive relationship with all share index and also was statistically significant in the current year while money supply had a negative relationship with All Share Index (ASI) in the current year and in the previous lags i.e 1st, 2nd and 3rd years lag periods in the short run period but was found to have a positive relationship with All Share Index in the long run and was statistically significant at 5% level of significance, Consumer Price Index (CNPI) had a negative relationship with ASI in the current and in the 1st years lag periods and finally, Treasury Bill Rate (TRBR) had a negative relationship and significant impact on ASI in the current year period but was also found to have a positive and strong impact on ASI in the 1st lag period.

Ibbih, Anzaku and Ogwuche (2020) examined the effect of monetary policy on manufacturing value-addition in Nigeria. Time series secondary data, sourced from National Bureau of Statistics and Central Bank of Nigeria statistical bulletins is used. The data were subjected to Augmented Dickey-Fuller (ADF) and Philips-Perron (PP) stationarity tests to determine the appropriate econometric tool for analyses. The results of both tests showed that all the variables are stationary at both first difference and at level. This condition satisfied the choice of Autoregressive Distributed Lag (ARDL) model for estimation. The paper reveals that in the short run; only broad money supply majorly drives the growth of manufacturing value-addition in Nigeria. However, the long-run significant driver of manufacturing value-addition in Nigeria is largely from manufacturing sector credit. This is a pointer to the need to facilitate a favourable investment climate through appropriate monetary policy tool like manufacturing sector credit which represents more accurately the role of financial intermediaries in channeling fund to manufacturers and investors to boost output growth in the productive sector.

Literature Gap

This chapter has theoretically and empirically reviewed related literature on the effect of monetary policy on stock market performance in Nigeria. Consequent upon the empirical studies reviewed, some gaps in knowledge have been identified and this study aims to bridge these gaps in knowledge. Contently, some studies have been carried out to examine the effect of monetary policy on stock market performance in Nigeria. However, none of these studies examined used foreign direct investment and foreign portfolio investment as the control variables. With respect to time gap, the most recent time covered by most of these studies is 2021 which made their studies fail in covering the most recent events in Nigerian stock market. Also, the studies reviewed failed to reach a consensus on the subject matter. Hence, this study is designed to examine effect of monetary policy on stock market performance in Nigeria. Thus, the study made use of annual time series data which range from 1990 to 2022 as this made this work to be more updated than the previous studies while foreign direct investment and foreign portfolio investment were also used as the control variables.

METHODOLOGY

Ex-post research design is relevant and adopted in this study because it shows the cause-effect relationship between the independent variables and dependent variable with a view to establishing a link between them. It contains a description of methods and procedure employed in data collection, design and validation of test instrument. Also, the study employed secondary data. However, the relevant data for this study will be sourced from Central Bank of Nigeria (CBN), and Nigerian Exchange Group (NXG) fact book. These sources of data are considered reliable and dependable. The data for the study covered the periods of thirty-three (33) years, spanning from 1990 through 2022.

Model Specification

The analytical framework of this study in anchored on Keynesian theory which emphasized the role of money in an economy, with its indirect effect on other economic variables by influencing the interest rate which affects investment and cash holding of economic agents. However, the model of this study was built on the model of Tubotamuno and Oladosu (2024) who empirically determined the effect of monetary policy on the performance of the stock market in Nigeria. This model was slightly modified in line with the aim and objectives of this study.

To show the functional relationship, the model can be written as;

$$SMC = (MPR, M2, LQR, CRR, EXR) \quad (3.1)$$

To show the linear mathematical relationship, the model can be written as;

$$SMC = \beta_0 + \beta_1 MPR + \beta_2 M2 + \beta_3 LQR + \beta_4 CRR + \beta_5 EXR \quad (3.2)$$

Including the stochastic or error term ($\mathfrak{C}_t$) in our econometric model, our model will become;

$$SMC = \beta_0 + \beta_1 MPR + \beta_2 M2 + \beta_3 LQR + \beta_4 CRR + \beta_5 EXR + \mathfrak{C}_t \quad (3.3)$$

Where: SMC = Stock market capitalization, MPR = Monetary policy rate, M2 = Broad money suppl, LQR = Liquidity ratio, CRR = Cash reserve ratio, EXR = Exchange rate, β_0 = regression intercept, β_1- β_5 = Coefficients or parameters attached to the independent variables.

$\mathfrak{C}_t$ = Stochastic or error term

A Priori Expectation: $\beta_1 < 0$; $\beta_2 > 0$; $\beta_3 < 0$; $\beta_4 < 0$; $\beta_5 < 0$.

Data Analysis Techniques

The analytical procedure for this study began by providing the summary statistics for each series that will be included in our functional model. The summary statistics provided information on the average observation for each series and the median over the range of the investigation, measure of dispersion (maximum and minimum values and standard deviation) and information on the nature of skewness and kurtosis of both the conditioned variable and the predictor variables. The study built on this by conducting certain pre-estimation tests as stated earlier, so as to ensure that the estimated model is not spurious in nature and if a co-integrating regression can be estimated. However, since all the variables have mixed stationarity, that is, mixture of stationary at levels [I(0)] and stationary at first difference [I(1)], Autoregressive Distributed Lag (ARDL) technique was adopted. To achieve this, the data to be sourced from National Bureau of Statistics (NBS) and World Development Indicators (WDI) of World Bank for the period 1990-2022 were arranged in excel spreadsheet and exported to Econometric Views (E-Views) 12 statistical package for proper analysis.

The long run ARDL model employed in this study is specified as follows:

$$\Delta \mathrm{In}(SMC_t) = \beta_0 + \sum_{t=1}^{p} \beta_{1i} \Delta In(SMC_{t-1}) + \sum_{t=1}^{q} \beta_{2i} \Delta In(MPR_{t-1}) + \sum_{t=1}^{q} \beta_{3i} \Delta In(M2_{t-1}) + \sum_{t=1}^{P} \beta_{4i} \Delta In(LQR_{t-1}) + \sum_{t=1}^{P} \beta_{5i} \Delta In(CRR_{t-1}) + \sum_{t=1}^{P} \beta_{6i} \Delta In(EXR_{t-1}) + \alpha_{1i} \Delta \mathrm{In}(SMC_{t-1}) + \alpha_{2i} \Delta \mathrm{In}(MPR_{t-1}) + \alpha_{3i} \Delta \mathrm{In}(M2_{t-1}) + \alpha_{4i} \Delta \mathrm{In}(LQR_{t-1}) + \alpha_{5i} \Delta \mathrm{In}(CRR_{t-1}) + \alpha_{6i} \Delta \mathrm{In}(EXR_{t-1}) + \varepsilon_{1i} \quad (3.4)$$

The short run ARDL model employed in this study is specified as follows:

$$\Delta \mathrm{In}(SMC_t) = \beta_0 + \sum_{t=1}^{p} \beta_{1i} \Delta In(SMC_{t-1}) + \sum_{t=1}^{q} \beta_{2i} \Delta In(MPR_{t-1}) + \sum_{t=1}^{q} \beta_{3i} \Delta In(M2_{t-1}) + \sum_{t=1}^{P} \beta_{4i} \Delta In(LQR_{t-1}) + \sum_{t=1}^{P} \beta_{5i} \Delta In(CRR_{t-1}) + \sum_{t=1}^{P} \beta_{6i} \Delta In(EXR_{t-1}) + +\delta ECM_{t-1} + \varepsilon_{1i} \quad (3.5)$$

Where, In = natural log; ΔIn = the difference operator and indicates the optimum lag; t = time lag; β_0 = constant variable; $\alpha_1 - \alpha_6$ = long-run dynamic coefficients of the model; $\beta_1 - \beta_6$ = short-run dynamic coefficients of the model; ε_{1i} = serially uncorrelated stochastic term with zero mean and constant variance.

4.0 Data Analysis and Discussion of Findings

Trend Analysis

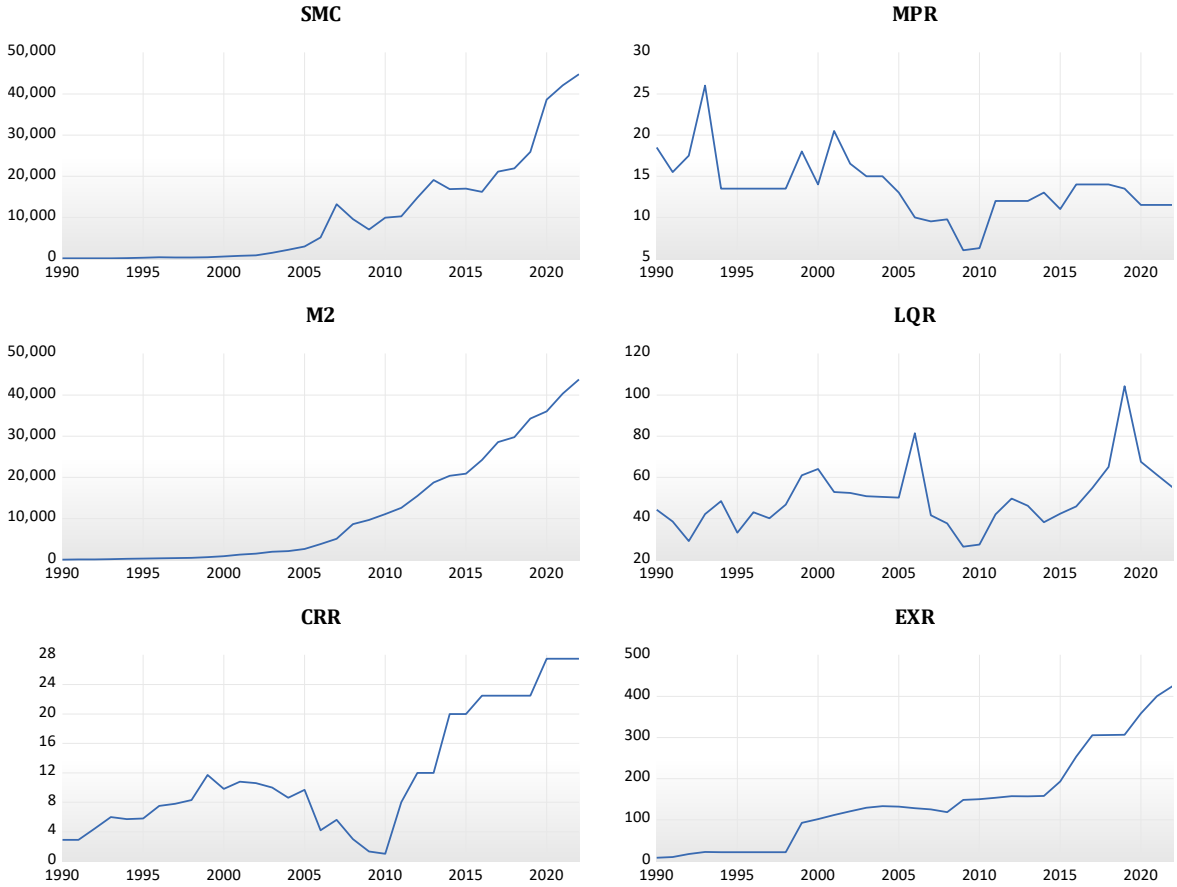

Figure 4.1: Line Graph Showing the Trend in Stock market capitalization (SMC)

Figure 4.1 shows the trend in stock market capitalization (SMC), monetary policy rate (MPR) broad money supply (M2), liquidity ratio (LQR), cash reserve ratio (CRR) and exchange rate (EXR) during the period under study. As depicted by the graph, unlike the broad money supply (M2) that maintained consistent upward movements throughout the study period, stock market capitalization (SMC), monetary policy rate (MPR), liquidity ratio (LQR), cash reserve ratio (CRR) and exchange rate (EXR) were consistently inconsistent in their upward and downward movements throughout the study period (from 1990 – 2022).

Descriptive Statistics

The descriptive statistics for the study variables are summarized in Table 4.1:

Table 4.1: Descriptive Statistics Results

	SMC	MPR	M2	LQR	CRR	EXR
Mean	13233.98	137.9228	1675.841	1650.188	11.57879	146.6518
Median	12461.74	129.0050	540.9650	461.3850	9.700000	129.3600
Maximum	18760.85	400.2400	6854.330	11431.96	27.50000	425.9800
Minimum	8926.640	8.040000	4.690000	118.0800	1.000000	8.040000
Std. Dev.	3830.417	106.9104	1890.344	2302.211	8.170938	116.5638
Skewness	0.272087	0.785876	0.903416	2.723393	0.727246	0.837470
Kurtosis	1.436839	2.949311	2.917861	11.57257	2.250068	2.932355
Jarque-Bera	3.652798	3.297298	4.361849	137.5418	3.682171	3.863745
Probability	0.160992	0.192310	0.112937	0.000000	0.158645	0.144877
Sum	423487.4	4413.530	53626.91	52806.02	382.1000	4839.510
Sum Sq. Dev.	4.55E+08	354325.1	1.11E+08	1.64E+08	2136.455	434787.6
Observations	**33**	**33**	**33**	**33**	**33**	**33**

Source: *Author's Computation, 2024 (EViews, 12.0 Output).*

Note: SMC = Stock Market Capitalization, MPR = Monetary Policy Rate, M2 = Broad Money Supply, LQR = Liquidity Ratio, CRR = Cash Reserve Ratio, EXR = Exchange Rate

The results of the descriptive statistics as shown in Table 4.1 indicates that stock market capitalization (SMC) recorded over the period a mean value of 10397.47 with a maximum of 44750.20 and minimum of 16.3 per annum. The standard deviation of stock market capitalization (SMC) is 12832.23 and this indicates that stock market capitalization (SMC) has high deviation or dispersion from the mean over the study period (1990 - 2022). In addition, monetary policy rate (MPR) recorded over the period a mean value of 13.59 with a maximum of 26.0 and minimum of 6.0 per annum. The standard deviation of monetary policy rate (MPR) is 3.797 and this indicates that monetary policy rate (MPR) has high deviation or dispersion from the mean over the study period (1990 - 2022). In furtherance, broad money supply (M2) recorded over the period a mean value of 11415.94 with a maximum of 43768.86 and minimum of 47.42 per annum. The standard deviation of broad money supply (M2) is 13651.81 and this indicates that broad money supply (M2) has high deviation or dispersion from the mean over the study period (1990 - 2022). Moreover, liquidity ratio (LQR) recorded over the period a mean value of 49.53 with a maximum of 104.2 and minimum of 26.39 per annum. The standard deviation of liquidity ratio (LQR) is 15.46 and this indicates that liquidity ratio (LQR) has very high deviation or dispersion from the mean over the study period (1990 - 2022). Also, cash reserve ratio (CRR) recorded over the period a mean value of 11.58 with a maximum of 27.5 and minimum of 1.0 per annum. The standard deviation of cash reserve ratio (CRR) is 8.17 and this indicates that cash reserve ratio (CRR) has low deviation or dispersion from the mean over the study period (1990 - 2022). Lastly, exchange rate (EXR) recorded over the period a mean value of 146.65 with a maximum of 425.98 and minimum of 8.04 per annum. The standard deviation of exchange rate (EXR) is 116.56 and this indicates that exchange rate (EXR) has high deviation or dispersion from the mean over the study period (1990 - 2022).

Unit Root Test

In order to avoid the problem of spurious regression, the series is subject to stationarity test using Augmented Dickey Fuller (ADF) statistic.

Table 4.2: Augmented Dickey-Fuller (ADF) Unit Root Test Results

	ADF @ Levels		At 1st Difference				
Variables	**ADF Statistic**	**5% Critical Value**	**ADF Statistic**	**5% Critical Value**	**Order of Integration**	**Decision**	
LOG(SMC)	-2.222255	-2.960411	-3.415892	-2.960411	I(1)	Stationary @ 1st Difference	
LOG(MPR)	-1.888733	-2.957110	-5.247345	-2.960411	I(1)	Stationary @ 1st Difference	
LOG(M2)	-2.187007	-2.957110	-4.982651	-2.960411	I(1)	Stationary @ 1st Difference	
LOG(LQR)	-0.938516	-2.967767	-5.228832	-2.967767	I(1)	Stationary @ 1st Difference	
LOG(CRR)	-5.078541	-2.957110	-	-	I(0)	Stationary @ Level	
LOG(EXR)	-1.888733	-2.957110	-5.247345	-2.960411	I(1)	Stationary @ 1st Difference	

Source: *Author's Computation, 2024 (EViews, 12.0 Output).*

The results of the ADF unit root test presented in Table 4.2 revealed that cash reserve ratio (CRR) is stationary at level and is integrated of order zero, that is, [I(0)]. Contrarily stock market capitalization (SMC), monetary policy rate (MPR), broad money supply (M2) and liquidity ratio (LQR) and exchange rate (EXR) were stationary at first difference and are integrated of order one, that is, [I(1)]. The results of the unit root test indicate that the data are expected be free from spurious and misleading regression estimates. Therefore, since all the variables (stock market capitalization, monetary policy rate, broad money supply, liquidity ratio, cash reserve ratio and exchange rate) were mixed of stationarity at level and at first difference that is I(0) and I(1), there is sufficient statistical evidence to proceed to cointegration test using Bounds cointegration analysis.

Bound Cointegration Test

Given that the variables have mixed stationarity, that is, integrated of order zero [I(0)] and integrated of order one [I(1)], we therefore proceed to establish or ascertain the existence or nonexistence of long-run cointegrating relationship among the variables in the equation using Autoregressive Distributed Lag (ARDL) Bound Test.

Table 4.3: ARDL Bounds Cointegration Test Result

Test Statistic	**Value**	**K**
F-statistic	5.881628	5
Significance	Lower Bound [I(0)]	Upper Bound [I(1)]
10%	2.08	3.00
5%	2.39	3.38
2.5%	2.7	3.73
1%	3.06	4.15

Source: *Author's Computation, 2024 (EViews, 12.0 Output).*

Table 4.3 showed the result of ARDL Bounds Test. The F- statistic of 5.881628 in the result indicates the rejection of the null hypothesis of no long run relationship among the variables at all critical levels (lower and upper bounds). This implies that there exists a long run relationship between monetary policy and stock market performance in Nigeria from 1990 to 2022. Specifically, this further shows that there is long run relationship among stock market capitalization monetary policy rate, broad money supply, liquidity ratio, cash reserve ratio and exchange rate. The confirmation of long run dynamics among the variables further necessitated the estimation of the extent of the relationship between the dependent and independent variables.

Estimation of Autoregressive Distributed Lag (ARDL) Model

Short Run ARDL Model Estimation

Table 4.4: Short Run Autoregressive Distributive Lag (ARDL)

Dependent Variable = LOG(SMC)				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.***
DLOG(MPR)	-0.439702	0.191957	-2.290631	0.0450
DLOG(MPR(-1))	-0.902864	0.225389	-4.005814	0.0025
DLOG(M2)	1.151335	0.201844	5.704089	0.0002
DLOG(LQR)	-0.223228	0.076438	-2.920368	0.0153
DLOG(LQR(-1))	-0.457077	0.230520	-1.982813	0.0755
DLOG(CRR)	-0.062283	0.092303	-0.674774	0.5151
DLOG(EXR)	0.259703	0.095039	2.732591	0.0211
DLOG(EXR(-1))	0.349211	0.141117	2.474622	0.0328
R-squared = 0.681439				
Adjusted R-squared = 0.601799				
Durbin-Watson stat = 2.409106				

Source: *Author's Computation, 2024 (EViews, 12.0 Output).*

The short run ARDL result in Table 4.4 reveals that monetary policy rate (MPR) has a negative coefficient value (-0.439702) and probability value (0.0450) that is less than 5 percent level of significance. This indicates that monetary policy rate (MPR) has negative but significant effect on stock market capitalization (SMC) in the short run. Hence, stock market capitalization (SMC) will decrease by 43.97% given a percentage increase in monetary policy rate (MPR) while stock market capitalization (SMC) will increase by 43.97% given a percentage decrease in monetary policy rate (MPR) in the short run. Moreover, the long run ARDL result reveals that broad money supply (M2) has a positive coefficient value (1.151335) and probability value (0.0002) that is less than 5 percent level of significance. This indicates that broad money supply (M2) has positive and

significant effect on stock market capitalization (SMC) in the short run. Hence, stock market capitalization (SMC) will increase by 115 billion naira given a Naira increase in broad money supply (M2) while stock market capitalization (SMC) will decrease by 115 billion naira given a Naira decrease in broad money supply (M2) in the short run. Moreover, the long run ARDL result reveals that liquidity ratio (LQR) has a negative coefficient value (-0.223228) and probability value (0.0034) that is less than 5 percent level of significance. This indicates that liquidity ratio (LQR) has negative and significant effect on stock market capitalization (SMC) in the short run. Hence, stock market capitalization (SMC) will decrease by 22.3% given a percentage increase in liquidity ratio (LQR) while stock market capitalization (SMC) will increase by 22.3% given a percentage decrease in liquidity ratio (LQR) in the short run. Furthermore, the long run ARDL result reveals that cash reserve ratio (CRR) has a negative coefficient value (-0.062283) and probability value (0.5151) that is greater than 5 percent level of significance. This indicates that cash reserve ratio (CRR) has negative and insignificant effect on stock market capitalization (SMC) in the long run. Hence, stock market capitalization (SMC) will decrease by 6.2% given a percentage increase in cash reserve ratio (CRR) while stock market capitalization (SMC) will increase by 6.2% given a percentage decrease in liquidity ratio (LQR) in the short run. Lastly, the long run ARDL result reveals that exchange rate (EXR) has a positive coefficient value (0.259703) and probability value (0.0211) that is less than 5 percent level of significance. This indicates that exchange rate (EXR) has positive and significant effect on stock market capitalization (SMC) in the long run. Hence, stock market capitalization (SMC) will increase by 25.97% given a percentage increase in exchange rate (EXR) while stock market capitalization (SMC) will decrease by 25.97% given a percentage decrease in exchange rate (EXR) in the short run. Furthermore, the short run ARDL result in Table 4.4 shows that the expected negative sign of CointEq(-1) is significant. This confirms the existence of the long run relationship among the variables with their various significant lags. The coefficient of CointEq(-1) which is -0.622992 and a p-value of 0.0001 indicates that the deviation from stock market capitalization long-term is corrected by 62.3% by the following year. Additionally, the adjusted R-squared (R^2) value of 0.601799 indicates that 60 percent of the systematic variation in stock market capitalization is explained by monetary policy rate (MPR), broad money supply (M2) and liquidity ratio (LQR) in the short-run while the remaining 17 percent are explained by other factors (variables) outside the model. Lastly, the Durbin Watson statistic of 2.409106 indicates that there is absence of serial correlation in the model.

Long Run ARDL Model Estimation

Table 4.5: Long Run Autoregressive Distributive Lag (ARDL)

Dependent Variable = LOG(SMC)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(MPR)	-1.015245	0.328476	-3.090775	0.0114
LOG(M2)	0.721214	0.268032	2.690777	0.0149
LOG(LQR)	-0.846044	0.311327	-2.717543	0.0217
LOG(CRR)	-0.134318	0.252506	0.531942	0.6013
LOG(EXR)	0.603207	0.233125	2.587480	0.0271
C	2.371195	3.269586	0.725228	0.4776

Source: *Author's Computation, 2024 (EViews, 12.0 Output).*

The long run ARDL result reveals that monetary policy rate (MPR) has a negative coefficient value (-1.015245) and probability value (0.0114) that is less than 5 percent level of significance. This indicates that monetary policy rate (MPR) has negative but significant effect on stock market capitalization (SMC) in the long run. Hence, stock market capitalization (SMC) will decrease by 101.5% given a percentage increase in monetary policy rate (MPR) while stock market capitalization (SMC) will increase by 101.5% given a percentage decrease in monetary policy rate (MPR) in the long run. In addition, the long run ARDL result reveals that broad money supply (M2) has a positive coefficient value (0.721214) and probability value (0.0103) that is greater than 5 percent level of significance. This indicates that broad money supply (M2) exerts a positive and significant effect on stock market capitalization (SMC) in the long run. Hence, stock market capitalization (SMC) will increase by 72.1% given a percentage increase in broad money supply (M2) while stock market capitalization (SMC) will decrease by 72.1% given a percentage decrease in broad money supply (M2) in the long run. Moreover, the long run ARDL result reveals that liquidity ratio (LQR) has a negative coefficient value (-0.846044) and probability value (0.0217) that is less than 5 percent level of significance. This indicates that liquidity ratio (LQR) has negative and significant effect on stock market capitalization (SMC) in the long run. Hence, stock market capitalization (SMC) will increase by 84.6% given a percentage increase in liquidity ratio (LQR) while stock market capitalization (SMC) will decrease by 84.6% given a percentage decrease in liquidity ratio (LQR) in the long run. Furthermore, the long run ARDL result reveals that cash reserve ratio (CRR) has a negative coefficient value (-0.134318) and probability value (0.6013) that is greater than 5 percent level of significance. This indicates that cash reserve ratio (CRR) has negative and non-significant effect on stock market capitalization (SMC) in the long run. Hence, stock market capitalization (SMC) will decrease by 13.4% given a percentage increase in cash reserve ratio (CRR) while stock market capitalization (SMC) will increase by 13.4% given a percentage decrease in liquidity ratio (LQR) in the long run. Lastly, the long run ARDL result reveals that exchange rate (EXR) has a positive coefficient value (0.603207) and probability value (0.0271) that is less than 5 percent level of significance. This indicates that exchange rate (EXR) has positive and significant effect on stock market capitalization (SMC) in the long run. Hence, stock market capitalization (SMC) will decrease by 60.3% given a percentage increase in exchange rate (EXR) while stock market capitalization (SMC) will increase by 60.3% given a percentage decrease in exchange rate (EXR) in the long run.

Post-Estimation Tests

The post estimation tests conducted in this study and its results are presented below:

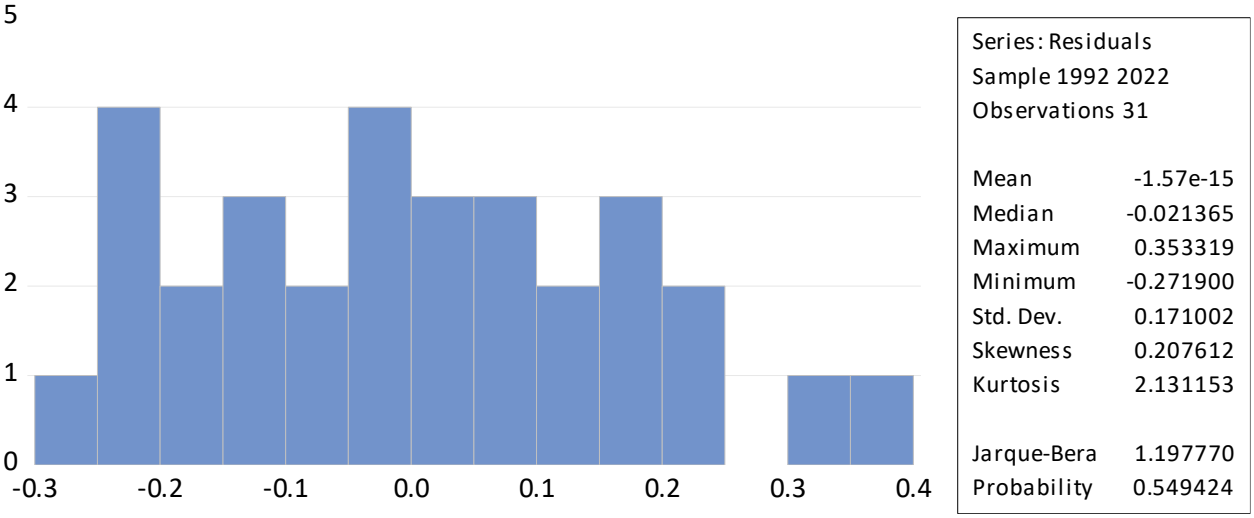

Figure 4.2: Normality Test

Source: *Author's Computation, 2024 (EViews, 12.0 Output).*

The result of the normality test in Figure 4.2 showed that the regression residual is normally distributed since the P-value (1.19777) is greater than 5 percent level of significance. In other words, under the Jarque-Bera normality test, a probability value of 0.6549424 was greater than the proposed level of significance and this suggests that the errors were normally distributed due to the upholding of the null hypothesis of normal distribution.

Table 4.6 Serial Correlation Test Result

Test	F-Statistic	P-value	Null Hypothesis	Decision
Breusch-Godfrey Serial Correlation LM Test	1.364952	0.2836	**H_0:** No serial correlation	Retain H_0

Source: *Author's Computation, 2024 (EViews, 12.0 Output).*

The results of the post-estimation tests were shown in Table 4.6. The serial correlation of the residuals was tested using Breuch Godfrey test or Lagrange Multiplier (LM). This test was carried out to find out whether the residuals are serially independent or not. However, the null hypothesis of no serial correlation was retained because the probability value of 0.2836 was greater than the 5 percent level of significance. This indicates that there was absence of serial correlation in our model.

Table 4.7: Heteroskedasticity Test Result

Test	F-Statistic	P-value	Null Hypothesis	Decision
Heteroskedasticity Test:	1.644554	0.1650	**H_0:** Homoscedasticity	Retain H_0

Source: *Author's Computation, 2024 (EViews, 12.0 Output).*

The result of the Breusch-Pagan-Godfrey Heteroskedasticity test in Table 4.7 showed that there was no heteroscedasticity in our model. This is because the null hypothesis of homoscedasticity was retained. Precisely, a probability value of 0.1650 showed that the errors were homoscedastic and independent of the explanatory variables. Hence, the model has a good fit and is adequate for any conclusion drawn from it.

Table 4.8: Ramsey RESET Test Results

Test	F-Statistic	P-value	Null Hypothesis	Decision
Ramsey RESET test	0.365589	0.5534	**H_0:** Correctly specified	Retain H_0

Source: *Author's Computation, 2024 (EViews, 12.0 Output).*

Lastly, the probability value of 0.5534 against the Ramsey Regression Equation Specification Error Test (RESET) test was greater than the proposed 5 percent level of significance. As a result, the null hypothesis that the model was correctly specified was sustained. Therefore, there was no possibility of the model being specified incorrectly which may result in the omission of certain variables.

Discussion of Findings

As regards the link between monetary policy rate and stock market capitalization in Nigeria, the finding emanating from this study revealed that monetary policy rate has a negative but significant effect on stock market capitalization in NigeriaThis finding is in tandem with the finding of Omodero, Adetula and Adeyemo (2021) which stated that monetary policy rate is a vital monetary policy indicator that significantly reduces stock market capitalization in Nigeria. With respect to the relationship between broad money supply and stock market capitalization in Nigeria, the finding emanating from this study revealed that broad money supply has a positive and significant effect on stock market capitalization in Nigeria. This finding agrees with the finding of Nwokoye and Otu (2018) who ascertained that broad money supply has a considerable and favorable impact on stock market development. As regards respect to the link between liquidity ratio and stock market capitalization in Nigeria, the finding emanating from this study revealed that liquidity ratio has a positive and significant effect on stock market capitalization in Nigeria. This finding is

supported by the finding of Muktadir-Al-Mukit and Shafiullah (2012) who established that liquidity ratio is an important indicator of monetary policy that negatively affects stock market performance. With respect to the link between cash reserve ratio and stock market capitalization in Nigeria, the finding emanating from this study revealed that cash reserve ratio has a negative and non-significant effect on stock market capitalization in Nigeria in the long run while it also has negative and non-significant effect on stock market capitalization in Nigeria in the short run .. This finding is in agreement with the finding of Anaele and Umeora (2019) who confirmed that cash reserve ratio has a negative and non-significant effect on the Nigerian capital market performance. With respect to the link between exchange rate and stock market capitalization in Nigeria, the finding emanating from this study revealed that exchange rate has a positive and significant effect on stock market capitalization in Nigeria. This finding is related to the finding of Odior and Nwaogwugwu (2016) who established that exchange rate as one of the monetary policy instruments used by the Central Bank of Nigeria exerts a significant positive impact on stock market performance measured by the growth of market capitalization in the Nigerian Stock Exchange Market.

5.0 Conclusion and Recommendations

Conclusion

In different economies of the world, monetary policy effect on stock market vary according to peculiarity and prevailing economic conditions as well as efficiency of the stock market in response to policies (such as monetary policy) and inflationary trend. Drawing from the foregoing, this study has empirically examined the effect of monetary policy on stock market performance in Nigeria from 1990 to 2022. Based on the findings, the study therefore concludes that monetary policy plays a vital role in improving stock market performance in Nigeria.

Recommendations

Based on the research findings and the conclusion drawn, the following are recommended:

i. Given the significant negative effect of monetary policy rate on stock market performance, the Central Bank of Nigeria should reduce the current double digit monetary policy rate to a single digit to attract investments in the stock market.
ii. Since there is a positive and significant relationship between money supply and stock market performance, Central Bank of Nigeria should consider increasing the money in circulation in order to improve business activities and the performance of stock market.
iii. Given the significant negative effect of liquidity ratio on stock market performance, the Central Bank of Nigeria should reduce the current double digit liquidity ratio to a single digit to attract investments in the stock market.
iv. Since cash reserve ratio has negative and insignificant effect on stock market performance, financial policies that will reduce cash reserve ratio should be pursued by Central Bank of Nigeria should reduce in order to increase stock market capitalization
v. Since rate has positive and significant effect on stock market capitalization in Nigeria, government should purses a stable and sustainable exchange rate policy and put in place, measures that will promote greater exchange rate stability and improve conditions of terms of the Nigerian stock market.

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