EFFECT OF MONETARY AND FISCAL POLICIES ON STOCK MARKET PERFORMANCE IN NIGERIA

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ABSTRACT

The dynamic between monetary and fiscal policies and their impact on stock market performance have been subject of considerable scholarly interest especially in the context of emerging economics. 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. This study suggests interplay between policies and stock market dynamics, emphasizing the need for coordinated and targeted measures.

Keywords: *Monetary Policy, Fiscal Policy, Stock Market Performance, Government Revenue, and Government Expenditure.*

1. INTRODUCTION

The mobilization of capital and allocation of economic resources from surplus sector to deficit sector to achieve greater economic potentials is a crucial function of the Nigeria stock market (Osakwe & Chukwunulu, 2019). The interaction between monetary and fiscal policies and their effects on stock market performance has been a topic of significant academic interest, particularly in the context of emerging economies. The global financial environment has undergone substantial changes over time, and emerging economies such as Nigeria have increasingly integrated into the international financial system (Mishra et al., 2021). In Nigeria's financial environment, known for its strong stock market and developing economic policies, it is essential for investors, policymakers, and researchers to grasp the connection between these policy tools and stock market movements (Aizenman et al., 2022).

The impact of monetary policy on stock markets has been debated in terms of its effect through specific channels, such as the interest rate channel, the credit channel, the wealth effect, and the monetary channel (Mishkin, 2001; Sousa 2010; Nwagwugwu, 2018).

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Monetary policy entails the regulation of money supply and interest rates by a central bank to achieve macroeconomic goals, while fiscal policy involves the government's utilization of taxation and spending to influence the economy (Ojo & Akinbobola, 2021). In Nigeria, the Central Bank of Nigeria (CBN) develops and enforces monetary policy, while the federal government is accountable for fiscal policy choices. The interaction of these policies can significantly impact the stock market, affecting investor confidence, market liquidity, and overall economic stability.

Moreover, fiscal policy involves government spending (both regular and capital spending) and government taxation, as well as other sources of income aimed at impacting economic activities or attaining specific macroeconomic objectives in a particular economy (Akomolafe & Agunbiade, 2019). It also encompasses the discretionary adjustments in the level, composition, and timing of government spending and income (Ogbulu et al., 2015). Fiscal policy encompasses government expenditures (both regular and capital) and income from taxes, as well as other sources of income aimed at influencing economic activities or achieving specific macroeconomic objectives in a given economy (Eneje et al., 2019). It is commonly believed that a government can use its spending pattern and structure to determine the direction of economic growth (Akomolafe & Agunbiade, 2019). Agwu and Godfrey (2020) stated that an efficient financial flow is essential for investment, and this relies heavily on the effectiveness of the policies and facilities provided by the regulatory and supervisory authorities of an economy. Lawal et al. (2018) investigated the relationship between the vis-à-vis all-share index and various factors such as money supply, interest rate, exchange rate, real gross domestic product, government expenditure, and consumer price index. Similarly, Gowriah et al. (2014) focused on analyzing money supply, interest rate, inflation, and effective exchange rate in their model. In a different study, Prukumpai and Sethapramote (2019) examined World import volume, real GDP, real government spending, short-term interest rate, long-term government bond yield, and stock market indices.

Furthermore, there is a systematic gap, with most previous research, such as the work of Osake and Chukwumudu (2019), Umezu et al. (2019), Byo (2016), Akani and Imegi (2017), and Nwokoby and Alajelwu (2016), focusing on analyzing the impact of monetary and fiscal policies on the stock market using ordinary least squares (OLS). The limitations of OLS in this study include the assumption of independent observations, susceptibility to outliers, and a linear functional relationship. Furthermore, prior research has shown that the majority of studies have concentrated on analyzing the interplay between fiscal and monetary policies and their influence on the stock market in developed economies, with limited attention given to emerging economies, particularly the Nigerian economy. This current study contributes to the existing body of literature by investigating the effects of fiscal and monetary policies on stock market performance in an emerging economy, specifically focusing on Nigeria, the largest economy in Africa, for the period from 1981 to 2021, utilizing the ARDL model.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 CONCEPT OF STOCK MARKET

A stock market is a segment financial market that deals in long-term financial securities like shares, bonds, debentures, loan stock, stocks, and others. According to Donwa and Odia (2010), the capital market has been

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identified as an institution that contributes to the socio-economic growth and development of emerging and developed economies. In other words, the stock market is a segment of the financial market where long-term loanable funds packaged in the form of securities, such as shares, stocks, bonds, debentures, loan stocks, and derivatives, are traded. It could also be described as a financial market where medium to long-term funds are exchanged by the deficit and surplus economic units; hence, the stock markets provide an avenue for raising capital which are employed in the real sector for trade and investment and by implication, the market encourages business growth and ultimately economic growth.

2.2 MONETARY POLICY IN NIGERIA

Monetary policy is concerned with the control of money supply to influence macroeconomic variables such as inflation, interest rate, employment and real output. Stock market returns are the aggregate weighted returns of all securities in the market (Peter & Omorokunwa, 2016). In other words, monetary policy is a deliberate action and programmed effort of the monetary authorities to change the quantity, availability, and cost of money in an economy to attain objectives such as full employment of resources, price stability, economic growth, balance of payment (Babarinde et al., 2021). Monetary policy can either be contractionary, expansionary, neutral or accommodative. Contractionary monetary policy is the use of monetary tools to reduce money supply or to raise the interest rate, while expansionary aim at increasing the money supply. Accommodative policy tends to lower the cost of capital in order to stimulate economic activities and engender economic growth, while monetary policy is neutral when such policy is not targeting the expansion of economic activities nor reducing inflation. The Central bank of Nigeria (CBN), was founded in 1958, through its activities and the monetary policy committee (MPC) is responsible for monetary and credit policy in Nigeria.

2.3 CONCEPT OF FISCAL POLICY

Fiscal policy involves the use of government expenditures, taxation and borrowing (either domestic or external) to control the pattern of economic activities and also the level and growth of aggregate demand, output and employment. Fiscal policy entails government's management of the economy through the manipulation of its income and spending power to achieve certain desired macroeconomic objectives (goals) amongst which is economic growth (Medee &Nembee,2011). The three important goals or objectives of fiscal policy are economic stability at a high level of output and employment, price stability and economic growth; full employment level and in controlling inflation and deflation and thus attaining price stability.

3. EMPIRICAL REVIEW

The literature of Galf and Gambetti (2015) estimated the response of stock prices to monetary policy shocks using Vector Autoregression (VAR). Evidence pointed to protracted episodes in which stock prices ended up increasing persistently in response to an exogenous tightening of monetary policy. That response was at odds with the conventional view on the effects of monetary policy on bubbles and the predictions of bubble-fewer models. They argued that it was unlikely that the evidence could be accounted for by an endogenous response of the equity premium to the monetary policy shock.

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Also examined by Akani and Lucky (2014) is the relationship between money supply and aggregate stock prices in Nigeria from 1980 — 2012 using Johansen-Joselinus method of cointegration and Vector Error Correction Model (VECM). Empirical results from the study demonstrated the existence of a long-run relationship between currency in circulation and demand deposit and aggregate stock price, time deposit, savings deposit while net foreign assets have negative relationship with aggregate stock prices in Nigeria.

The impact of monetary policy on stock returns in Nigeria from January 2003 to June 2014 was studied by Ekene (2016) using variance decompositions and impulse response functions. The explanatory variables employed in the study are consumer price index, inter-bank rate, open buyback, Treasury bill rate, and exchange rate while the all-share index is the dependent variable. The results of the study revealed that monetary policy variables did not have a significant impact on the prices of stock in Nigerian equity market.

However, using Johansen co-integration, Ordinary Least Squares (OLS) and Granger causality tests, Nwakoby and Alajekwu (2016) examined the effect of monetary policies (monetary policy rate, Treasury bill rate, lending interest rate, liquidity ratio and deposit rate) on stock market volume performance (All Share Index) in Nigeria from 1986 and 2013. The result revealed no long run relationship between monetary policy and stock market performance. Further, it was established that monetary policy influenced the stock market, though the Granger causality test found that monetary policy did not influence stock market performance, instead stock market performance has influenced the direction of monetary policy via lending and deposit rates.

Using Johansen co-integration test, Vector Error Correction, and VAR model, Rifat (2015) examined the relationship between monetary policy tools (inflation, real output, money supply, exchange rate) and stock market returns in Bangladesh. The study found that there is no significant relationship between monetary policy variables and stock market returns.

In another study, Barakat et al. (2016) investigated the relationship between the stock market and macroeconomic factors in Egypt and Tunisia from January 1998 to January 2014 using VAR and Granger causality tests. The study found a causal relationship in Egypt between the market index and consumer price index, exchange rate, money supply, and interest rate. For Tunisia the same result was applicable except for the Consumer Price Index (CPI) which had no causal relationship with the market index. Furthermore, it was found that the macroeconomic variables are co-integrated with the stock market in both countries.

4. METHODOLOGY

The ex post facto research design was employed to examine the effect of monetary and fiscal policies on stock market performance in Nigeria. The period was 40 years (1981 – 2021. The study employed time series secondary data. gathered from the Central Bank of Nigeria (CBN 2021) statistical bulletin and the World Bank's world development indicators. The specified model for this study was adapted from the model used by Sede and Omorokunwa (2015) on the impact of fiscal and monetary policy on stock market returns in Nigeria, which is stated in equation (1) below.

$$SR = f(TBR, MPR, DDEBTYR, M2, MSYR, FDYR) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.. (3.1)$$

Transformed equation (3.1) into econometric form;

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$$SR_t = \beta_0 + \beta_1 TBR_t + \beta_2 MPR_t + \beta_3 DDEBTYR_t + \beta_4 M2_t + \beta_5 MSYR_t + \beta_6 FDYR_t + \mu_t \ldots\ldots\ldots\ldots (3.2)$$

According to the adapted model, the notation of SR is stock returns, TBR is treasury bill rate (monetary policy), MP R is monetary policy rate; MSYR is a ratio of money supply to GDP; DDEBTYR is government domestic debt accumulation as a percentage of GDP (fiscal policy),

FDYR is a fiscal deficit to income, u is an error term.

In this study, modifying Sede and Omorokunwa's model as stated in equation (1), the functional mathematical relations between stock market performance and monetary and fiscal policies is specified in equation (2).

$$SMCAP = f(M2, GOVTEXP, GOVTREV, INFR, EXR) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (3.3)$$

Transformed equation (3.3)

$$SMCAP_t = \beta_0 + \beta_1 M2_t + \beta_2 GOVTEXP_t + \beta_3 GOVTREV_t + \beta_4 INFR_t + \beta_5 EXR_t + +\mu_t \ldots\ldots\ldots\ldots\ldots\ldots (3.4)$$

However, this study proposes to situate the research within [the ARDL model, hence the long-run ARDL model for this study is specified in equation (4) below.

$$\begin{aligned}\Delta lnSMCAP_t = {} & \theta_0 + \theta_1 lnSMCAP_{t-1} + \alpha_1 lnM2_{t-1} + \alpha_2 lnGOVTEXP_{t-1} + \alpha_3 lnGOVTREV_{t-1} + \alpha_4 lnINFR_{t-1} + \alpha_5 lnEXR_{t-1} \\ & + \sum_{i=1}^{b} \beta_1 \Delta lnSMCAP_{t-1} + \sum_{i=1}^{b} \beta_2 \Delta lnM2_{t-1} + \sum_{i=1}^{b} \beta_3 \Delta lnGOVTEXP_{t-1} + \sum_{i=1}^{b} \beta_4 \Delta lnGOVTREV_{t-1} \\ & + \sum_{i=1}^{b} \beta_5 \Delta lnINFR_{t-1} + \sum_{i=1}^{b} \beta_6 \Delta lnEXR_{t-1} + \varepsilon_t \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (3.5)\end{aligned}$$

The first part of the equation without Δ indicates long-run dynamics while the second part with Δ indicates the short-run dynamics. The bound testing approach is utilized to establish cointegration among the variables before estimating the equation. To estimate the short-run adjustment to equilibrium we specify the Error Correction Model (ECM) in equation 3.5 as follows;

$$\begin{aligned}\Delta \ln SMCAP_t = {} & \theta_0 + \sum_{i=1}^{b} \beta_1 \Delta \ln SMCAP_{t-1} + \sum_{i=1}^{b} \beta_2 \Delta \ln M2_{t-1} + \sum_{i=1}^{b} \beta_3 \Delta \ln GOVTEXP_{t-1} + \sum_{i=1}^{b} \beta_4 \Delta \ln GOVTREV_{t-1} + \sum_{i=1}^{b} \beta_5 \Delta \ln INFR_{t-1} \\ & + \sum_{i=1}^{b} \beta_6 \Delta \ln EXR_{t-1} + \delta ECM_{t-1} + \varepsilon_t \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (3.6)\end{aligned}$$

Where, the speed of adjustment of the parameters for the long run equilibrium following a shock to the system is δ, and the error correction model is ECM_{t-1}.

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Where; SMCAP = Market Capitalization at time t; M2t = Broad money supply rate at t time; GOVTEXP = Government expenditure at time t; GOVTREV = Government revenue at time t; INFRt = Inflation rate at time t; EXRt = Exchange rate at t time; A denotes first difference operator, (30 = the drift component, = the error term, ßl - ß6 = the parameters of the short-run dynamics of the model, - corresponds to parameters of the long-run relationship.

5. RESULT AND DISCUSSION

Table 1, offers a comprehensive summary of statistical characteristics for six different variables such as broad money supply (M2, government revenue (GR, government expenditure (GE, inflation rate (INFRt, exchange rate (EXRt, market capitalization (SMCAP,

TABLE 1 DESCRIPTIVE STATISTICS

	MCAP	GE1	GR	INF1	M2	EXR1
Mean	10.77042	94.61145	3.83E+13	18.94662	16.80191	115.6556
Median	9.028016	94.40532	3.26E+13	12.94178	13.88719	114.8990
Maximum	30.50899	105.5820	6.78E+13	72.83550	27.37879	425.9792
Minimum	2.497462	76.94907	1.71E+13	5.388008	9.063329	0.617708
Std. Dev.	5.671758	6.078637	1.70E+13	16.45496	6.060746	119.1827
Skewness	1.527699	-0.726660	0.245382	1.877082	0.449879	1.025345
Kurtosis	5.701132	3.543636	1.419101	5.437063	1.508689	3.230143
Probability	0.000000	0.121636	0.090938	0.000000	0.070343	0.024089
Observations	42	42	42	42	42	42

Source: *Author's Computation using Data from the World Bank Database 2023*

The market capitalization (MCAP) data reveals an average value of approximately 10.77, with a moderate standard deviation of 5.67, indicating a degree of variability in the market values. The right-skewed skewness (1.53) suggests that the distribution is skewed towards higher market capitalizations. Additionally, a positive kurtosis of 5.70 implies a distribution with heavier tails and a sharper peak than a normal distribution.

The variable government expenditure (GE), likely representing a certain metric, displays an average value of around 94.61, with moderate variability (std. dev. 6.08). The negative skewness (-0.73) indicates a left-skewed distribution, suggesting a tail on the left side. This may imply that lower values are more spread out than higher values. Similarly, government expenditure, exhibits a large average value of 3.83E+13, indicating the presence of extremely high values. The substantial standard deviation (1.70E+13) underscores the considerable variability in this variable. The skewness (0.25) and positive kurtosis (1.42) suggest a distribution with a moderate degree of rightward skewness and a moderately peaked shape. Furthermore, Inflation data reveals an average rate of approximately 18.95, with a considerable standard deviation of 16.45, indicating a broad range of inflation rates. The highly positive skewness (1.88) suggests a distribution with a longer right tail, indicating the presence of unusually high inflation rates in the dataset. In addition, money supply, representing a certain monetary aggregate, shows an average value of around 16.80, with

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moderate variability (std. dev. 6.06). The skewness (0.45) suggests a slightly right-skewed distribution, indicating a tail on the right side.

The average exchange rate is approximately 0.46, with a large standard deviation of 14.08, signifying significant variability. The highly negative skewness (-2.75) suggests a left-skewed distribution, indicating a tail on the left side. The presence of a negative minimum value (-65.86) may indicate the presence of outliers or data quality issues. Finally, exchange rate, displays an average value of around 115.66, with a large standard deviation of 119.18, indicating substantial variability. The positive skewness (1.03) suggests a distribution with a tail on the right side.

Table 2. Augmented Dickey Fuller (ADF Unit Root Test

		ADF		**PP**			
Variables		**Level**		**Level**	**1st Difference**		
LMCAP	**t-stat**	**-6.912378**	**0.0000**	**-6.912378**	**0.0000**	**I(1)***	Stationary
	1%	-3.600987		-3.600987			
	5%	-2.935001		-2.935001			
	10%	-2.605836		-2.605836			
LGE	**t-stat**	**-3.964621**	**0.0037**	**-3.884162**	**0.0046**	**I(0)****	Stationary
	1%	-3.596616		-3.596616			
	5%	-2.933158		-2.933158			
	10%	-2.604867		-2.604867			
LGR	**t-stat**	**-5.740934**	**0.0000**	**-5.733713**	**0.0000**	**I(1)***	Stationary
	1%	-3.605593		-3.605593			
	5%	-2.936942		-2.936942			
	10%	-2.606857		-2.606657			
INF	**t-stat**	**-3.135008**	**0.0315**	**-2.998964**	**0.0431**	**I(0)****	Stationary
	1%	-3.596616		-3.596616			
	5%	-2.933158		-2.933158			
	10%	-2.604867		-2.604867			
LM2	**t-stat**	**-9.502619**	**0.0000**	**-5.717415**	**0.0001**	**I(1)***	Stationary
	1%	-3.600987		-4.192337			
	5%	-2.935001		-3.520787			
	10%	-2.605836		-3.191277			
LINR	**t-stat**	**-4.748742**	**0.0004**	**-4.748742**	**0.0004**	**I(0)***	Stationary
	1%	-3.596616		-3.596616			
	5%	-2.933157		-2.933157			
	10%	-2.604867		-2.604867			
LM2	**t-stat**	**-9.502619**	**0.0000**	**-5.717415**	**0.0001**	**I(1)***	Stationary
	1%	-3.600987		-4.192337			
	5%	-2.935001		-3.520787			
	10%	-2.605836		-3.191277			
LINR	**t-stat**	**-4.748742**	**0.0004**	**-4.748742**	**0.0004**	**I(0)***	Stationary
	1%	-3.596616		-3.596616			
	5%	-2.933157		-2.933157			
	10%	-2.604867		-2.604867			

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LEXR	**t-stat**	**-4.241596**	**0.0017**	**-4.156249**	**0.0022**	**I(1)***	Stationary
	1%	-3.600987		-3.600987			
	5%	-2.935001		-2.935001			
	10%	-2.605836		-2.605836			

Source: Author's Computation Using E-views 9.0

The outcomes of the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests indicate that all variables achieve stationarity at a 5% significance level for both tests. This is based on comparing the absolute values of the ADF and PP test statistics with critical values at the 1%, 5%, and 10% levels of significance. Consequently, to attain stationarity, the series undergoes differencing once in both the ADF and PP tests. As a result, we can conclude that variables such as LMCAP, LGR, LM2, and LEXR are stationary at the first difference level (I(1)), while LGE, INF, and LINR are stationary at the level without differencing (I(0)). Subsequently, section, 3, explores lag length selection, and the ARDL bound test is covered in section 4.

Table 3. Lag Length Selection

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-438.6351	NA	4.76e+09	25.12201	25.16645	25.13735
1	-369.9630	129.4961	99659875	21.25503	21.34390	21.28571
2	-365.4650	8.224806*	81628450*	21.05514*	21.18846*	21.10116*
3	-364.7586	1.251286	83057903	21.07192	21.24968	21.13328

Note: * indicates lag order selected of the information criterion, (each test at 5% level).
Source: Author's Computation Using E-views 9.0

The determination of the most appropriate lag length was carried out using established selection criteria (LR, FRE, AIC, SC, HQ) derived from the empirical vector correction estimate. Across all lag length selection criteria, including LR, FRE, and AIC, the optimal lag consistently identified was 2. Lag 2 demonstrated effective elimination of residual serial autocorrelation, prompting its designation as the optimal lag length.

Autoregressive Distributed Lag (ARDL) Bound Test for Co-integration

The Autoregressive Distributed Lag (ARDL) Bound Test for Co-integration is a pivotal statistical technique employed in econometrics to investigate the existence of a long-run relationship among variables in a given economic model. In this context, the ARDL Bound Test is used to explore and validate the presence of co-integration relationships between monetary and fiscal policies and the stock market in Nigeria.

Table 4. ARDL Bound Test for Co-integration

Variables	F-Statistics	Decision
MCAP =F (GE, GR, M2, INF, EXR).	4.483991	long Co-integration

Critical Value	Lower Bound	Upper Bound
1%	2.39	3.38
5%	2.70	3.73

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10%	3.06	4.15

Source: Author's Computation Using E-views 9.0

The ARDL bound test for the cointegration table in 4. shows that when MCAP (Market Capitalization), is a dependent variable, the calculated F statistics is found to be higher at all levels of significance at 1%, 5%, and 10%, indicating that the critical value of 4.48 is higher than the lower and upper bound value at all level of significance. This suggests that there is a long-run cointegration/relation between MCAP (Market Capitalization) and GE (Government Expenditure), GR (Government Revenue), M2 (Money Supply), and exchange rate (EXR).
It can be concluded that there is a long-run relation between monetary, and fiscal policies and stock market performance in Nigeria. Therefore, the short run is estimated in section 5.

Table 5. ARDL Cointegration Short Run and Long Run Estimation Estimation

Selected Model: ARDL (1, 2, 2, 0, 2, 0)				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.***
LMCAP (-1)	0.527373	0.116177	4.539379	0.0001
LGE	-0.659704	1.148633	-0.574339	0.5705
LGE (-1)	-2.129312	1.214214	-1.753654	0.0908
LGE (-2)	2.240414	0.912025	2.456528	0.0207
LGR	-0.335670	0.854962	-0.392615	0.6977
LGR (-1)	0.660651	1.174680	0.562410	0.5785
LGR (-2)	1.047940	0.860715	1.217523	0.2339
LM2	-0.884730	0.338544	-2.613341	0.0145
INF1	0.009410	0.004786	1.966150	0.0596
INF1(-1)	-0.001832	0.005551	-0.329928	0.7440
INF1(-2)	0.010756	0.004883	2.202567	0.0363
LEXR	-0.075903	0.061898	-1.226261	0.2307
ECT (-1)	-0.778709	0.306845	-2.537794	0.0184
R-squared		Adjusted R-squared		
0.729768		0.609666		
F-statistic		Akaike info criterion		
6.076192		0.849929		
Prob(F-statistic)		Durbin-Watson stat		
0.000050		2.541147		

Source: Author's Computation Using E-views 9.0

The lag log of market capitalization (LMCAP (-1)) Coefficient (0.527373) indicate that one-unit increase in the lagged value of LMCAP is associated with a 0.527373 unit increase in the dependent variable. The coefficient is statistically significant suggesting a positive impact.

The lag log of government expenditure in lag one LGE (-1), indicates that the Coefficient (LGE (-1): -2.129312), a one-unit increase in the lagged value of LGE is associated with a -2.129312 unit decrease in the dependent variable. It is not statistically significant. In addition, the lag log of government expenditure in lag two shows that the Coefficient (LGE (-2): 2.240414), indicating the one-unit increase in the second lag of LGE is associated with a 2.240414 unit increase in the dependent variable. This coefficient is statistically significant at a 5% level of significance.

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The coefficients of the government revenue at lag one and two (LGR, LGR (-1), LGR (-2)), show that the coefficients for LGR and its lags are not statistically significant, indicating that these variables may not have a significance impact on the dependent variable in the short run. The coefficients of money supply LM2, indicate (-0.884730), a one-unit increase in LM2 is associated with a -0.884730 unit decrease in the dependent variable. This coefficient is statistically significant at 5% level of significance.

The coefficients of the inflation at level, lag one and two (INF1, INF1(-1), INF1(-2)). The coefficient at level shows coefficient (INF1: 0.009410): A one-unit increase in INF1 is associated with a 0.009410 unit increase in the dependent variable. While the coefficient is positive, it is not statistically significant. At lag one, the coefficient of inflation (INF1(-1): -0.001832) is not statistically significant. While at lag two the Coefficient of inflation (INF1(-2): 0.010756) is statistically significant. The coefficient of exchange rate (LEXR (-0.075903)) shows that a one-unit increase in LEXR is associated with a -0.075903 unit decrease in the dependent variable. This coefficient is not statistically significant.

The results of the ARDL error correction term (etc.) estimation show that the parameter estimates are appropriately signed and in conformity with the apriori expectations. The estimated coefficient of the error correction term -0.778709 is significantly different from zero at 5 percent level and with the appropriate negative sign. This suggests the validity of long-run equilibrium relationship among the variables. The estimated coefficient value suggests that the reversion to long-run equilibrium is at an adjustment speed of 77.87 percent speed of adjustment in a year at 5% significance level, indicating that the system is getting to the long-run equilibrium at the speed of 77.87 percent.

The model fit and diagnostic show that the coefficient of determination (R-squared) is 0.729768, indicating that the model explains approximately 73% of the variance in the dependent variable. In addition, the adjusted R-squared is 0.609666, accounting for the number of predictors in the model. The F-statistic is 6.076192 with a very low p-value (Prob(F-statistic) = 0.000050), suggesting that the overall model is statistically significant.

Diagnostic tests

The result of the serial correlation and Heteroskedasticity Test in Table 4.6, shows that there is no serial correlation given that the F- statistics is above the 0.5 level of significance, therefore the model is fit and there is no serial correlation.

In addition, the Heteroskedasticity test suggests that the null hypothesis of no Heteroskedasticity is accepted at a 5% level of significance since the p-value is more than 5%. Also, the Ramsey rest test indicated that the study cannot reject the null hypothesis of no sign of misspecification, because the p-value is more than 5% level of significance. Therefore, it can be concluded that the model is correctly specified and that the model has no sign of non-linearity. All the diagnostics tests confirm that the model is fit and there is no sign of any problem in the model.

Table 4. 6. Diagnostic Tests Results

Test	**F-Statistics**	**Prob. F**	**Obs*R-squared**	**Prob. Chi-Square (2)**
Serial Correlation Test	0.357921	0.7031	1.575644	0.4548
Heteroskedasticity Test	1.331417	0.2627	21.31901	0.2636
	F-statistics		**t-statistics**	.
Ramsey RESET Test				

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	Value	Prob.	Value	Prob.
	0.152844	0.6991	0.390953	0.6991

Source: Author's Computation Using E-views 9.0

6. DISCUSSION OF FINDINGS

The impact of fiscal and monetary policies on the stock market has been a subject of considerable research interest in recent years, with multiple studies contributing valuable insights on this topic. The following discussion synthesizes findings from the cited empirical literature to gain a comprehensive understanding of this topic.

Studies exploring the interplay between monetary on stock market dynamics reveal some investigations, such as Effiong (2012) and Enahoro (2013), highlighting the positive synergy of combined monetary policies, showcasing their beneficial effects on stock market development and operational efficiency in Nigerian financial institutions. On a global scale, insights from Hsing (2013) and Chatziantoniou et al. (2013) suggest significant linkages between these policies and stock market performance in countries like Poland, Germany, the UK, and the USA. However, not all findings align positively, with studies like Gowriah et al. (2014) reporting no significant correlations in Mauritius, and Peter and Omorokunwa (2016) revealing negative impacts of monetary policy instruments on stock returns in Nigeria. Within the Nigerian context, research by Sede and Omorokunwa (2015), Lawal et al. (2018), and Nwaogwugwu (2018) underscores mixed and context-dependent influences. The result confirmed that government expenditure shows no statistical significance; indicating that these variables may not have significant impact on the dependent variables in the short run. The findings underscore the intricate relationship between monetary policies and stock market outcomes, emphasizing the need to consider diverse factors and contexts in understanding this dynamic interplay.

The literature on the relationship between government expenditure and stock market performance presents a diverse range of findings. Positive effects are evident in studies such as Udegbunam and Oaikhenan (2012), Muyanga (2014), and Eyo (2016), which highlight the favorable impact of fiscal measures like government expenditure and revenue on stock prices. Conversely, studies like Bekhet and Othman (2012), Ogbulu et al. (2015), and Onyema (2017) reveal negative or insignificant relationships between fiscal policy and stock market outcomes, which aligned with these studies. In addition, Eneje et al. (2019) and Nwakobi et al. (2020) provide nuanced perspectives, identifying both positive and negative impacts under different circumstances. These variations underscore the complexity of the interaction, influenced by factors such as the specific fiscal policies implemented, regional economic conditions, and the time frames considered.

Several studies in the review consistently support the existence of a positive relationship between money supply and stock market performance. This study found that money supply positively affects stock returns. The finding of this study is supported by Jawed and Akhtar (2012), AKani and Lucky (2014), Galf and Gambetti (2015), Barakat et al (2016), Akani and Imegi (2017), Echekoba et al (2018) and Nwokoye and Emmanuel (2018). While, the studies Rifat (2015), Adekunle et al (2016) and Ekene (2016) found a negative impact between money supply and stock market.

7. CONCLUSION AND RECOMMENDATIONS

In conclusion, the research findings provide valuable insights into the dynamics of fiscal, and monetary policies, and stock market performance in Nigeria. The stationarity tests revealed that certain key variables achieved stationarity through differencing, categorizing them as either stationary at the first difference level

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(I(1)) or remaining stationary without differencing (I(0)). Lag length selection identified an optimal lag of 2, effectively addressing residual serial autocorrelation. The ARDL bound test confirmed the existence of a long-run relationship between monetary, fiscal policies, and market capitalization in Nigeria.

Subsequently, the short-run and long-run estimations using the ARDL model yielded significant coefficients, particularly for lagged values of market capitalization, government expenditure, and money supply. The findings suggest an interplay between policies and stock market dynamics, emphasizing the need for coordinated and targeted measures. The error correction term indicated a high speed of adjustment toward long-run equilibrium, emphasizing the dynamic nature of the relationship. Diagnostic tests affirmed the model's fit, ruling out issues like serial correlation, heteroskedasticity, and non-linearity. Cusum tests further underscored the stability of the model.

Overall, these findings suggest an interplay between fiscal, monetary policies, and stock market dynamics in Nigeria. The identified long-run relationship implies that policymakers should consider the joint effects of monetary and fiscal measures on market capitalization. The high speed of adjustment toward equilibrium underscores the responsiveness of the system to shocks, emphasizing the need for agile policy responses. This research contributes to the understanding of the intricate connections between policy measures and stock market outcomes in the Nigerian context.

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