*International Journal of*
Advanced Research in Statistics, Management and Finance
p-ISSN: 2315-8409 | e-ISSN: 2354-1644

IJARSMF

February, 2024
Vol.11, No. 1

# Macroeconomic Policy Framework, Quality of Governance and Stock Market Capitalization: Co-Integration Evidence from Nigeria

**[1]Olisaemeka D. Maduka,**
**[2]Chris U. Kalu, &**
**[3]Onugha, B. Chinwendu**
*[1,2&3]Department of Economics, Nnamdi Azikiwe University, Awka*

**Article DOI:**
10.48028/iiprds/ijarsmf.v11.i1.04

**Keywords:**
Co-integration approach, Macroeconomic policy framework, Quality of governance, stock market capitalization, Value traded shares, Nigeria

*Corresponding Author:*
Olisaemeka D. Maduka

**Abstract**

The inadequate performance of the capital market has been linked to weak macroeconomic policy framework and institutional framework. This paper investigated the impact of macroeconomic policy framework, quality of governance and stock market capitalization in Nigeria from 1970-2022. The variables of this paper are credit to the private sector, gross domestic product, inflation, and investment (domestic), and broad money supply. The other variables are political stability, quality of governance government expenditure, unemployment and value of stocks traded. The data for these variables were sourced from the Central Bank of Nigeria Statistical Bulletin and the National Bureau of Statistics of various years. This paper was anchored on the efficient market hypothesis and the technique employed was the Johansen co-integration approach. From the trace statistics, there were 8 co-integrating vectors, while the max-eigen statistics showed some co-integrating vectors between the included variables. From the normalized co-integration results, the coefficient of inflation was negative; broad money supply further showed a negative correlation between the variables while from the results and by implication, as government expenditure increases, capital market capitalization decreases. The conclusion from the findings is that macroeconomic policy and quality of governance have long-run correlation with capital market performance and also macroeconomic policy framework and quality of governance have varying impacts on stock market capitalization in Nigeria. This paper recommended among others the need for the monetary authority to target inflation through contractionary measures in order to stabilize prices and prevent risk in the stock market behaviour; the CBN should initiate monetary policy easing framework that would continue to translate to stock market performance and stable money supply should be maintained in order to drive capital market investments that would promote the efficiency and performance of the capital market in Nigeria.

**Background to the Study**

A market where existing share of publicly held companies are tradable either through the exchanges or over the counter markets. It is also a type of financial market where financial assets such as bonds, shares, funds (mortgage loans/project) loans) and others are raised and traded, and market can be divided into two: the primary market and the secondary market. Most modern markets no longer necessarily need to have a physical presence (CBN, 2016). Meanwhile, stock exchange where stock capitalization takes place is an organized and regulated market where securities (stocks, bonds, notes, options among others) are bought and sold at prices governed by the forces of demand and supply. Stock exchanges serves the following functions: primary market where corporations, governments, municipalities, and other incorporated bodies can raise capital by channeling savings of the investors into productive venture; secondary market where investors can sell their securities to other investors for cash, thereby reducing the risk of investment and maintaining liquidity in the system (Osuoha, 2010).

Governance is a multifaceted concept including institutional framework and the impact of the exercise of power on the quality of life enjoyed by the citizens. The nature of governance as reflected in broad institutional measures such as property rights, rule of law and absence of corruption, matters for long-term growth (World Bank, 2017). Good governance plays an important role in the implementation of successful economic policies including macroeconomic policies (fiscal, monetary and exchange rate) (Acemoglu, Johnson & Robins (2001)

There is a clear correlation between macroeconomic policies, quality of governance and stock market capitalization. Institutional and political governance holds the key to economic growth which promotes the capital market development. Specifically, corruption has led to serious causes of development including the capital market which not only led to over-bloated increase in public investment which are inefficiently utilized but also results in a decline in private and corporate investment which affect the capital market Ekpo, 2021).

Given the above scenario, this paper seeks to investigate the impact of macroeconomic policies and institutional framework on capital market capitalization in Nigeria. Following the introductory section, section 2 provides a springboard to the paper by presenting facts behind the scenario in Nigeria, section 3 clarifies certain conceptual issues including the review of empirical literature. Section 4 presents the theoretical framework, methodology and the model. Section 5 discusses the empirical results while section 6 concludes the paper.

**Nigeria: Stylized Facts on the Economy**

This paper provides some facts on selected macroeconomic and institutional framework in Nigeria to show the development of these variables over the reviewing years. Nigerian capital market was established in 1960 for the purpose of bridging savings and investment gap and simplifies the sourcing of long-term funds. It constitutes a network of

financial institutions and investors interacting to mobilize and allocate long-term funds to productive investment and funds are exchanged for financial assets issued by borrowers or traded by stockholders which in turn offers access to a variety of financial instruments that enables economic agents to pool, price and exchange risk (Akani& Imegi, 2017).

Over the years, the Nigerian stock market like several other markets across the continents have experienced massive fluctuations in its market index and thus has been attributed to many factors including investment into and divestment from it (Sundayson, David &Hemen, 2013). Starting from the mid-2000, the stock market witnessed steady growth in its volume of trade, value of stocks traded as well as the All-Share Index before the crash of the market in 2008 as can be seen in the profiles and trends provided.

The Nigerian Stock Exchange recorded bullish activities from July 14 to July 21, 2017. The two major market indices, ASI (All-Share Index) and MCAP (Market Capitalization) increase by 2.3 percent to 34.020.04 points and N11.7 trillion respectively (SEA, 2017). Also, all other market indices closed positively, with the exception of NSE insurance index which closed negative. Stock Market indices improved due to the increase in total transaction volumes at the bourse, which may have initially been triggered by the better half-year and quarterly earnings reports released by some listed companies (SEA, 2017). Table 1 presents source flashpoints of the development in the Nigerian capital market.

**Table 1:** Quarterly Economic Indicators

| **Quarterly Indicators** | **2018$Q_3$** | **2019$Q_4$** | **2023$Q_1$** |
|---|---|---|---|
| Foreign direct investment (US $ Million) | 340.64 | 344.63 | 211.38 |
| Portfolio Investment (US $ Million) | 920.32 | 284.22 | 313.61 |
| Other Investments (US $ Million) | 561.16 | 920.03 | 383.28 |
| Monthly Indicators | **April 2018** | **May, 2019** | **June, 2023** |
| All Share Index (Points) | 25,758.51 | 29,498.31 | 33.117.48 |
| Market capitalization (₦' Billion) | 8,912.90 | 10,197.73 | 11,452.12 |

**Source**: CSEA, (2023).

Some factors including a weak macroeconomic landscape, downward trend in foreign portfolio investment (FPI) and the volatility of the naira negatively impacted on the performance of the capital market in 2020. Meanwhile, some of the policy response included the stimulus package injected into the economy which helps the market to relatively stable during the fiscal year, 2020 (CSEA, 2020). Table 2 presents the trends of movements in the capital market with the reviewing period.

**Table 2:** Economic Indicators

| **Quarterly Indicators** | **2020$Q_3$** | **2023$Q_1$** |
|---|---|---|
| Foreign direct investment (US $ Million) | 200.08 | 257.25 |
| Portfolio Investment (US $ Million) | 2,999.50 | 1883.58 |
| Other Investments (US $ Million) | 2,167.98 | 1661.55 |
| Monthly Indicators | **December 2020** | **January 2023** |
| All Share Index (Points) | ~~NA~~ | ~~NA~~ |
| Market Capitalization (~~₦~~′ Billion) | - | - |

**Source**: CSEA, (2021)

**Table 3:** Economic Indicators

| **Quarterly Indicators** | **2020$Q_2$** | **2021$Q_4$** |
|---|---|---|
| Foreign direct investment (US $ Million) | 107.81 | 358.23 |
| Portfolio Investment (US $ Million) | 406.35 | 1,186.53 |
| Other Investments (US $ Million) | 1,217.21 | 642.87 |
| Monthly Indicators | **December 2020** | **January 2022** |
| All Share Index (Points) | ~~NA~~ | ~~NA~~ |
| Market capitalization (~~₦~~′ Million) | NA | NA |

**Source**: CSEA, (2023)

Capital importation into Nigeria stood at $2.79 billion in First Quarter (HI) of 2021, a 6 percent year-in-year decline when compared to the $7.15 billion recorded in HI of 2020. Of the $2.79 billion, foreign portfolio investment (FDI) accounted for 54.8 percent, while other investments and foreign direct investment (FDI) account for 36.8 percent and 8.4 percent respectively. In terms of macroeconomic policy, in line with the Central Bank of Nigeria's drive to unify the exchange rate, the National foreign exchange (NAFEX) rate was adopted as the official exchange rate in May 2021, signaling naira devaluation by 7.6 percentage point. The challenging macroeconomic landscape affected seriously the performance of equities market, as the Nigerian Exchange Group All Share Index (NGX ASI) posted a negative return of -5.87 percentage point in HI of 2021 (KPMG, 2022).

The yield on the benchmark 10-year Federal Government of Nigeria bond increased from 7.3 percent in June 22021 and fluctuates around 11.4 percent as at the end of August 2021. Rising inflation in addition with the dip in stock market returns meant investors have had their interest increasingly skewed towards fixed income assets, thereby offering corporate incentive to access funds needed for growth, debt refinancing among other uses. In H1 2021, outstanding corporate issuances include the N41.21 billion issuance by Fidelity Bank in February. The 10-year bond was the largest by a Nigerian bank. Again, the market also witnessed the debut of N110 billion issuance by MTN Nigeria Communicators Plc in May-marking the first-time issuance by a telecommunication company. The gains were channeled towards refinancing existing debt, as well as developing infrastructure. In summary, a total of N246.24 billion was raised in 11

corporate bond issuances in the first half of 2021 (PWC, 2022). Further, sub-nationals are increasingly adopting alternative financing structures to fund critical infrastructure projects through the private debt market amidst dwindling statutory transfers from the central government.

The Nigerian Stock Exchange Market has undergone series of reforms to measure up with other emerging markets in the world thereby enhancing participation of foreign investors. This was implemented to promote the key sectors of the economy; make the market accessible for raising capital and attractive to both foreign and local investors. However, those challenges of the Nigerian stock market remain unresolved. Interest rate has remained high at above 25 percent with deleterious effects on the cost of borrowing and investment in Nigeria. The instability of exchange rate leads to speculation in foreign market; disrupt international credit operations and the stock market operations, while money supply has to be supported with growth in output of goods and services in other not to draw stock prices downwards. Effects of inflation rate also leads to decline in stock prices and among others. However, the depressed stock prices have forced the local investors, who had never witnessed a market meltdown, to panic and sell off their shares which also caused the market capitalization to drop even further. Because as prices continued to fall, many investors in the market now suffered losses and as a result, the once thriving market now suffers low patronage as investors now seek alternative investment opportunities.

In the Nigeria context, it is believed that lack of fiscal discipline has been the bane of the economy. Despite the fact that realized revenues are often above budgetary estimates, extra-budgetary expenditures have been rising so fast and resulting in ever bigger fiscal deficit. Indeed, such fiscal deficits have become unsustainable till date. There is an increasing concern about the unfavourable effects on the productive capital stock, of persistent and large government deficits, which inevitably has resulted in increased government debt as ratio of GDP and total private wealth. Thus, it is feared that the increase in public debt will continue to feed itself as upon the government borrows to finance the interest payments on debt if procured, and the debt becoming excessively large relative to other macroeconomic variables. The question of sustainability has become an important issue not merely because current unsustainable policies must later be reversed, but also because unsustainability becomes a mere and more important problem as time goes on and as fiscal deficits increase because of debt accumulation. It is precisely a conviction that the government is shortsighted in its policies, and that it is biased toward overspending because of the nature of our political economy, that makes sustainability an issue (Masson, 1985; The World Bank, 1988).

**Table 4:** Consolidated Government Operation, 2000-2022

| | 2000 | 2010 | 2015 | 2022 |
|---|---|---|---|---|
| Total revenue (% of GDP) | 30.7 | 45.0 | 46.9 | 36.4 |
| Total expenditure (% of GDP) | 38.0 | 38.6 | 50.2 | 40.7 |
| Fiscal balance (% of GDP) | -7.4 | 6.4 | -3.3 | -4.2 |
| Total debt (% of GDP) | 106.3 | 89.2 | 81.3 | 87.9 |
| External debt (% of GDP) | 81.8 | 69.1 | 62.2 | 67.2 |
| Domestic debt (% of GDP) | 24.5 | 20.1 | 19 | 20.7 |
| Total debt ($ billions) | 37.3 | 39.0 | 38.8 | 40.5 |
| External debt | 28.7 | 30.2 | 29.7 | 31.0 |
| Domestic debt | 8.6 | 8.8 | 9.1 | 9.5 |

**Source:** FMoF (2023).

In the late 1980s, attempts were made to smooth government revenues by saving incomes above a reference price of oil in a specialized fund. The operation of such funds was generally weak owing to a lack of transparency and fiscal discipline governing the use of such funds. In 1989 for example, a total of 14.6 billion naira accrued into the funds of which about 6 billion naira was withdrawn for use by the federal government despite rising oil prices (World Bank, 2003).

Provisional data from the Debt Management office indicates a continued increase in Nigeria's debt profile. Total debt stock stood at N19.16 trillion as at the end of 2017 Q1 (March 31, 2017) a 10.4 percentage increase from N17.36 trillion recorded as at December 31, 2016-three months into the year 2017. The constant increase seems to indicate the government's apparent resolve to borrow from both internal and external sources in a bid to fund the government's budget deficits and projects for economic recovery. Table 2.5 presents some economic indicators relating to the Nigerian economy in the 3$^{rd}$ and 4$^{th}$ quarters of 2016 and quarter one of 2017 (CSEA, 2017).

**Table 5:** Quarterly Economic Indicators 2016Q3- 2022Q1

| Indicators | $2016Q_3$ | $2016Q_4$ | $2022Q_1$ |
|---|---|---|---|
| GDP Growth rate (%) | -2.34* | -1.73 | -0.52 |
| Oil GDP (%) | -23.04* | -17.70* | -11.62 |
| Non-oil GDP (%) | 0.03 | -0.33 | 0.72 |
| External Debt (FGN & States-N' Billion) | 3,535.38 | 3,478.91 | NA |
| Domestic Debt (FGN- N' Billion) | 10,845.22 | 11,058.20 | NA |
| FAAC (N' Billion) | 466.9 | 496.39 | 418.8 |

**Source:** CSEA (2023).
* Revised GDP Figures

Data from the National Bureau of Statistics (NBS) show that in the first quarter of 2022, Nigeria's value added tax (VAT) collected by the Federal Inland Revenue Service (FIRS) stood at N588.6 billion, representing an 18.6 percent increase compared to the N496.5

billion collected in Quarter 1 of 2021. Decomposing the aggregate VAT revenue by classification indicates that local non-import VAT accounted for about 58.5 percent of total VAT in the period under review. Nigeria Customs Service (NCS)-import VAT accounted for 21.5 percent of total VAT, and foreign non-VAT (import) accounted for 20 percent. Further analysis of the local non-import VAT shows that the manufacturing, information and communications (ICIs), and mining and quarrying sectors had the highest contributions, accounting for 32.8 percent, 17.1 percent and 11.9 percent, respective. While the increased VAT collection is a good approach to raising revenue, it is advised that there is need for the government to frequently evaluate the tax automation strategies to identify areas for improvement to reduce tax evasion and ensure greater compliance by the companies (CSEA, 2022). Table 6 present some indicators between 2021Q1 and 2022Q1 in some comparative purposes.

**Table 6:** Nigeria Economic Indicators, 2021Q-2022Q1

| **Indicators** | **$2021Q_1$** | **$2022Q_1$** |
|---|---|---|
| GDP Growth rate (%) | 3.98 | 3.11 |
| Oil GDP (%) | -8.06 | -26.04 |
| Non-oil GDP (%) | 4.73 | 6.08 |
| External Debt (FGN & States-N' Trillion) | 15.86 | 16.62 |
| Domestic Debt (FGN + States, N' Trillion) | 23.70 | 24.99 |
| FAAC (N' Billion) | 601.11 | 656.6 |

**Source**: CSEA (2023).

On a more general note, the Nigerian fiscal space has consistently and continually shrunk on the back of increasing debt-to-GDP ratio and low revenue-to-GDP ratio estimated at 7.1 percent in 2021. In the fiscal-budget plans, the FGN plans to finance the 2022 fiscal gap with borrowings from domestic sources (N2.57 trillion), foreign sources (N2.57 trillion), multi-lateral/bi-lateral loans drawdown's (N1.16 trillion) and privatization proceeds (N90.7 billion), with the possibility of resorting to the Ways and Means Facility (WMF) with the CBN in the possible event of poor revenue outcome or external financial shortfalls. With the increase in planned borrowing, government debt as a percentage of GDP is also expected to grow from 35.7 percent in 2021 to 36.7 percent in 2022, thus, significantly increasing the debt burden of the county and posing a risk to debt sustainability (KPMG, 2022).

Although revenue generation remains a fiscal constraint for the federal government, one of its strategies for improving domestic revenue generation is by making incremental changes to Nigeria's fiscal framework through the enactment of annual Finance Acts. The Finance Act, 2021 introduced an excise duty at N10 per litre of non-alcoholic, carbonated, and sweetened beverages, fine-tuned tax laws provisions concerning the taxation of the digital economy and increased the Tertiary Education Tax rate from 2 percent to 2.5 percent. According to KMPG Advisory (2022), it is imperative that the Government achieves or surpasses its budgeted revenue of N10.7 trillion as contained in the year 2022

fiscal budget, to ensure the effective implementation of the N17.1 trillion budgeted expenditure and curtail the country's budget deficit which at the moment is about N6.39 trillion and about 3.5 percent of the country's GDP.

**Table 7:** Year 2022 Fiscal Baseline Assumptions

| **Baseline Assumptions** | **2021** | **2022** | **Percentage** |
|---|---|---|---|
| | **Revised Budget** | **Approved Budget** | **Change** |
| Benchmark oil price | $40 per barrel | $62 per barrel | 55% |
| Oil production volume (mbpd) | 1.86 million | 1.88 million | 1% |
| Average exchange rate | ₦379.1 | ₦410.1 | 8% |
| Inflation (%) | 11.95% | 13.00% | 9% |
| GDP growth rate (%) | 3.00% | 4.20% | 40% |

**Source**: KPMG (2023).

**Table 8:** Year 2022 Fiscal Items

| **Total Fiscal Deficit** | **6,449.35** | **6,386.07** | **-1%** |
|---|---|---|---|
| GDP | 142,694.42 | 184,381.98 | 29% |
| Deficit/GDP | 4.52% | 3.46% | -1% |
| Capital Expenditure as % non-debt exp. | 47% | 45% | -2% |
| Privatization proceeds | 205.15 | 90.73 | -56% |
| Multilateral/Bi-lateral loans | 709.69 | 1,155.82 | 63% |
| Restructured loans | 39.63 | - | -100% |
| Foreign Aid/Grant | 6.00 | - | -100% |
| New borrowing | 5,488.88 | 5,139.52 | -6% |
| Domestic borrowing | 2,744.44 | 2,569.76 | -6.36% |
| Foreign borrowing | 2,744.44 | 2,569.76 | -6.36% |

**Source**: Budget 2022

Nigeria has made some progress in improving its fiscal policy management as part of economic reforms. However, despite these improvements in the management of public expenditures in Nigeria, significant challenges remain. As rightly adduced in different for a, some fiscal measures have been recommended including: (i) deepening the fiscal reforms; (ii) using an oil price based fiscal rule; (iii) improving transparency in public finances; (iv) improving pro-poor expenditures; (v) improving efficiency in capital spending and straightening of the budget planning processes.

The period, 1970 to 1988 tallies with the Development Plans of the Second, Third and Four and the two years of the Structural Adjustment Programme. Within these periods, monetary policy implementations aimed at: maintenance of confidence in the Nigerian currency through measures to stabilize domestic wages and prices; effective arraignments for supplementing Government revenues and for providing development

finance. The others are control of inflation; correction of maladministration in the monetary sector, and promotion of productive capacity. Also, as part of the measures, there were reduction of the high unemployment rate, acceleration of national output; stimulation of national savings and capital formation, and restoration of healthy of balance of payment position (Anyanwu, 1990). The most common monetary policy instrument used within the period are reserve requirements, rediscount rate, moral suasion and credit guidelines.

**Table 9:** Monthly Economic Indicators

| Economic Indicators | September, 2016 | October, 2016 | November, 2022 |
|---|---|---|---|
| Headline Inflation (%) | 17.85 | 18.3 | 18.5 |
| Food Sub-Index (%) | 16.60 | 17.1 | 17.2 |
| Core Sub-Index (%) | 17.70 | 18.1 | 18.2 |
| External Reserve (US $ M) | 23,806.51 | 23,689.87 | 25,081.22 |
| Exchange Rate (BDC- N/US$) | 431.10 | 462.03 | 415.36 |
| Official Rate (%) | 305.23 | 305.21 | 305.18 |
| MPR (%) | 14.00 | 14.00 | 14.00 |
| Private sector credit (%) | 22.50 | 22.50 | 22.50 |
| Public sector credit (%) | 22.50 | 22.50 | 22.50 |
| Savings Deposit (%) | 4.05 | 4.08 | 4.28 |
| Prime lending (%) | 17.09 | 17.10 | 17.06 |
| Max lending (%) | 27.49 | 27.69 | 28.53 |
| Narrow Money (N′ billion) | 9,949.39 | 10,023.62 | NA |
| Broad money (N′ billion) | 22,133.48 | 22,275.51 | NA |
| Currency in circulation | 1,794.29 | 1,825.06 | NA |

**Source**: CSEA (2023).

**Table 10:** Monthly Economic Indicators for 2022Q1-Q3

| Monthly Indicator | $2021Q_2$ (Nov) | $2022Q_3$ (Dec) |
|---|---|---|
| Headline inflation (%) | 14.89 | 15.63 |
| Food sub-index (%) | 18.30 | 17.37 |
| Core sub-index (%) | 11.05 | 13.87 |
| External reserve (US $ Billions) | 35.41 | 40.52 |
| MPR (%) | 11.5 | 11.5 |
| CRR (%) | 27.5 | NA |
| Saving Deposit Rate (%) | 1.84 | 1.25 |
| Prime lending (%) | 11.60 | 11.68 |
| Narrow Money (N′ Million) | 14819010.85 | NA |
| Net Domestic Credit (N′ Million) | 40194156.06 | NA |

**Source**: CSEA, (2023).

The Monetary Policy Committee of the CBN retained the Monetary Policy Rate (MPR) at 11.5 percent, as well as other monetary parameters, at the first meeting of the CBN for

2022, held on the 24th and 25th of January. Specifically, the Cash Reserve Ratio (CRR) was retained at 27.5 percent, the Liquidity Ratio was retained at 30 percent, and the asymmetric corridor of +100/-700 basis points around the MPR was also retained. The decision to retain all the parameters was aimed at supporting the existing economic growth recovery and curbing the increase in prices. However, inflation persistence in Nigeria has continued to emanate from supply-side constraints which monetary policy may be unable to mitigate.

**Conceptual/ Theoretical Issues**

This section examines the notion of macroeconomic policy framework, quality of governance and capital market capitalization. The stock market is a distribution mechanism acts as an intermediary between the savers and users of funds, and its importance in an economy is very vital. Its central role of mobilizing funds across units and economic agents are helpful to the development of the economy. The stock market acts as a transmission mechanism that facilitates the mobilization and channeling of savings to individual and institutional investors. The stock market is a component of a free-market economy. It allows companies to raise money by offering stock shares and corporate bonds and allows investors to participate in the financial achievements of the companies, makes profits through capital gains, and earns income through dividends. The stock market works as a platform through savings and investments of individuals are efficiently channeled into productive investment opportunities and add to the capital formation and economic growth of the economy. Stockbroker's acts as intermediaries between the stock exchanges and the investors by buying and selling stocks and portfolio managers are professionals who invest in port-folios, or collections of securities, for clients. Investment managers represent companies in various capacities, such as private companies that want to go public via an initial public offer (IPO) or companies that are involved in pending mergers and acquisitions (Afolabi & Ogebe, 2019)

Monetary policy is a deliberate action by the monetary authorities to influence the quantity, cost and availability of credit/money using direct and or indirect monetary instruments to achieve the desired macroeconomic objectives of internal and external balance. The objectives low level and stable inflation, low unemployment, balance of payments equilibrium and economic growth and development. The actions are carried out through changing money supply and/or interest rates with the aim of managing the quantity of money in the economy. The Central Bank of Nigeria is the organ of the federal government that is responsible for the conduct of monetary policy in Nigeria. In accordance with the provisions of the Central Bank of Nigeria Act 2007, the primary objective of monetary policy has remained the maintenance of monetary and price stability. The paths through which, monetary policy actions taken by a Central Bank influence the real sector is called the monetary policy channel. The six popular channels of monetary policy are: interest rate channel, exchange rate channel, wealth, equities channel, bank lending channel, and balance sheet channel. These six channels are mutually exclusive, but a high degree of interdependence is often observed among them. Although every channel plays a critical role, the interest rate channel is usually the most

important. The impact of monetary policy on stock prices can be explained through the interest rate channel. For an expansionary monetary policy stance, Central Banks conduct Open Market Operations (OMOs) to purchase secondary government bonds from deposit money banks, injecting a greater supply of money supported by the transmission mechanism whereby monetary policy decisions are transmitted into changes in the economy, this action by the Central Bank lowers the cost of loanable funds for investors from downward pressures of market interest rates. This encourages investors to conduct greater level of borrowing and subsequent portfolio investment such as stock purchases driving up prices of stock (Chen, 2021). Government policies on the generation of revenue through taxation and other sources as well as deciding on the level and pattern of expenditure for the purpose of influencing activities or attaining some predetermined macroeconomic goals. Fiscal policy instruments include taxes, expenditure, debt or borrowing and subsidies among others.

In the Keynesian postulation, fiscal policy concerns itself with the government expenditure and revenue to influence the level of aggregate demand in order to achieve macroeconomic objectives. A rise in government expenditure could lead to an increase in the level of disposable income, which implies that individuals have greater opportunity to invest in the capital market, thereby pushing up demand for stocks. This raises the prices of stocks in the market, also implying an indirect relationship between government expenditure and stock prices. Again, increased fiscal measures stimulate higher levels of consumer confidence and consumption, indicating that firms experience a corresponding increase in sales and earnings also promoting a rise in stock prices. However, in the Ricarchian view, fiscal policy instruments do not have an impact on the aggregate demand as it assumes that borrowings from the private sector will be offset by private savings of households (Chen, 2021). Hence, there will be no effect on stock market prices. The theory assumes that individuals will base off their expectation of future tax increases to decide their level of investment and consumption at the present moment due to precautionary motives.

**Empirical Literature Review**

On the subject is very vast but a brief review would be undertaken. For instance, Babangida and Khan (2021) examined the effect of monetary policy on the Nigerian stock market from the period 2013 $M_4$ to 2019 $M_{12}$. The variables used are the All-Share Index and the monetary policy rate, 91-day Treasury bill rate, broad money and exchange rate and inflation. The study employed the Smooth Transition Autoregressive (STAR) model on a monthly data. The current Treasury bill rate was found to have a positive effect on the stock exchange market. It is recommended that the Central Bank of Nigeria should maintain a stable money supply growth that is consistent with increased activities in Nigerian stock market. Despite the contributions of the study, institutional variable was completely ignored by the authors.

Alugbuo and Ekwugha (2020), examined the relationship between monetary policy and stock market performance in Nigeria between 1981-2018. The technique applied is the

ARDL (autoregressive distributed lag). The variables used are all share index, broad money supply, Treasury bill rate, lending rate and consumer price index. The result showed that treasury bill rate had a negative relationship with (all share index) in the current year period but was also found to have a positive and strong impact on ASI in the 1st lag period, based on this result, the study recommended that central bankers and stock market participants should be aware of the relationship between monetary policy and stock market performance in order to better understand the effects of policy shifts. Despite the contributions of the study, political factors and socioeconomic variables are missing from the study. Then a test for causality is necessary.

Osakwe and Chukwunulu (2019) examined the effect of monetary policy on stock market performance in Nigeria from the period 1986 to 2015. The variables used are All Share Index, broad money supply, interest rate and exchange rate. The study used the Ordinary Least Square (OLS) relying on its Best Linear Unbiased Estimator. The result showed that money supply and exchange rate fluctuation have significant positive effect on stock market price movement, while interest rate has insignificant negative effect on stock market movement. It is recommended that the monetary authorities should make information relevant for securities available to the stock market participations and also make sure the transparency and accountability to audit reports are implemented. The use of only three variables in the study is inadequate and the problem of misspecification is inherent in the study. Major explanatory and control variables are missing.

Eneje and Obidike (2019), examined the response of stock market growth to fiscal policy in Nigeria from 1986 to 2016 using the co-integration and vector error correction model (VECM). The variables used are market capitalization, fiscal policy (government expenditure and government revenue and total government debt; and Treasury bill rate. The results of the study provided evidence of long-run relationship between fiscal policy and stock market growth in Nigeria. Furthermore, debt overhang showed a significant but negative long-run relationship with stock market growth. Based on the impulse response function, the response of stock market of fiscal policy was positive from the first three periods and then negative for the rest of the periods. The study recommended for increased government expenditure to spur stock market growth in Nigeria. The challenge of this study is that major variables like money supply, exchange rate and institutional variables are missing.

Kuncoro (2017), studied the impact of different kinds of fiscal policy on the stock market return stabilization in the case of Indonesia, using quarterly data over the period 2001-2013. Some of the variables used are fiscal policy measures, fluctuations of stock market returns and debts. The techniques used are the co-integration approach, the Granger causality and the unit root test. The results show that the discretionary and automatic stabilization fiscal policy tends to induce the stock returns volatility. While the credible debt rule policy leads to decrease the vitality of stock returns, the deficient rule policy is found to be non-credible and does not have any effect. The concern of this paper is only on the impact of fiscal policy on stock market returns, while the concern of our study is both on the fiscal and monetary impacts.

Anghelache, Jakova and Oanea (2016), analyzed the relationship between fiscal policy and capital market performance in six European countries, using quarterly data from 2004 to 2015. The variables used were government expenditure, government revenue and capital market returns, using the least square method. The study revealed that there is a bilateral relationship between fiscal policy and capital market performance for Czech Republic and Slovakia. In Bulgaria, the result revealed that fiscal policy affects the capital market returns, while in Poland; the result revealed that the capital market returns affect the fiscal policy.
The above conflicting results suggest the need to revisit the evidence.

**Theoretical Framework and Methodology**
Arising from the efficient market hypothesis the model indentifies the capital market to be efficient when the capital market is informational efficient and as such, no one can consistently achieve returns that is in excess of the average market returns. Fama (1970) revealed that there are three versions of the hypothesis namely, the weak, the semi-string, and the strong forms. The weak forms claims that prices are traded assets (e.g., stocks & bonds) already reflect all past publicly available information. The semi-strong-form claims, simultaneously, that prices reflect all publicly available information and that prices instantly change to reflect new public information. Lastly, the strong form additionally claims that prices instantly change to reflect new public information. The strong form additionally claims that prices instantly reflect even hidden or, insider information.

**Empirical Model Specification**
In attempting to investigate the relationship between monetary-fiscal policies and capital market performance, this study will adopt with modification the work of Anyamaobi (2018). The author expressed the functional relationship as follows:

$$MCT = F(MPR, INTR, TBR, EXR, MOG) \quad (1)$$

Where MCT = Nigeria stock market capitalization; MPR = Monetary policy; TBR = Treasury bill rate; EXR = Naira exchange rate per US dollar; INTR = Interest rate and MOG = Monetary aggregates. From the model specified in (1), it would be concluded that the study focused on the association between monetary policy and market capitalization. Hence, modifying equation (1) to accommodate fiscal policy, the model of this study in theoretical and mathematical form will be specified as follows:

$$MCAP = F(CPS, INF, INV, M2, POLSTAB, QGOVT, GEXP, UNE, VTS) \quad (2)$$

Equation (2) is formulated to accommodate fiscal policy, the interaction of fiscal and monetary aggregate and institutional framework. This model is specified alongside the objectives of this study and the transmission channels through which monetary-fiscal policies impacts on the capital market performance. Equation (2) can be specified econometrically as follows:

$$MCAP = \beta_0 + \beta_1 CPS + \beta_2 INF + \beta_3 INV + \beta_4 M2 + \beta_5 POLSTAB + \beta_6 QGOVT + \beta 7 GEXP + \beta_8 UNE + \beta_9 VTS + \beta_{10} GDP + \mu \quad (3)$$

To enhance its elasticity, linearity and easy interpretation, the model is log-linearize except for variables with rates and percentages, in other words, nominal variables will be logged. Therefore, equation (3) becomes in log form:

$$LnMCAP = \beta_0 + \beta_1 LnCPS + \beta_2 INF + \beta 3 LnINV + \beta 4 LnM2 + + \beta 5 LnPOLSTAB + \beta_6 LnQGOVT + \beta_7 LnGEXP + \beta_8 UNE + \beta_9 LnVTS + \beta_{10} LnGDP + \mu \quad (4)$$

Where MCAP = Market capitalization; CPS = Credit to the private sector; INF =Inflation rate; INV = domestic Investment; M2 = Broad moneys s; POLSTAB = Political Stability; QGOVT =Quality of governance; GEXP= Government expenditure, UNE= Unemployment rate and VTS= Value of traded shares and GDP= Gross domestic product.

The dataset for this study is time-series data from 1986 to 2021. The data, the description and sources were presented in Table 11.

**Table 11:** Sources of Data

| Variables | Description | Sources |
|---|---|---|
| MCAP | Market capitalization | CBN Statistical Bulletin |
| RINR | Real interest rate | CBN Statistical Bulletin |
| BANKCRE | Bank credit to the private sector | CBN Statistical Bulletin |
| EXCHR | Exchange rate (US$) | CBN Statistical Bulletin |
| INDOP | Industrial Production | CBN Statistical Bulletin |
| SAV | Savings rate | National Bureau of Statistic |
| INVEST | Investment (Gross fixed capital formation) | CBN Statistical Bulletin |
| DEBT/GDP | Debt-to-GDP ratio | CBN Statistical Bulletin |
| GOVERNANCE | Government effectiveness and Quality | World Governance Indicator (WDI) |

**Source**: Researchers' Compilation (2023).

**Empirical Results**

The empirical results from the estimated model derived from the theoretical framework are presented in the tables hereunder. The summary statistics highlights the characteristics of the data. This was carried out using the measures of central tendency (mean) and measures of dispersion (standard deviation, skewness, kurtosis and Jarque-Bera. These characteristics of the data are presented in the Table 12.

**Table 12:** Summary of Descriptive Statistics

| | CPS | EXP | INF | INV | $M^2$ | MCAP | POLSTAB | QGOVT | GEXP | UNE | VTS |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Mean | 2961878 | 423816.0 | 20.25553 | 866397.1 | 2224389 | 2434040 | -1.731038 | -1.013826 | 3150805 | 10.50882 | 150864.7 |
| Std. Dev. | 5206478 | 244121.5 | 17.97888 | 1193196 | 3074387 | 3850581 | 0.373742 | 0.091035 | 4031366 | 7.556150 | 261840.7 |
| Stewness | 1.813211 | 0.941204 | 1.590195 | 1.269176 | 1.319200 | 1.506115 | 0.714889 | -0.478355 | 0.9242 | 0.6936711 | 1.541672 |
| Kurtosis | 5.014713 | 2.534124 | 4.253475 | 3.147301 | 3.405606 | 3.972098 | 2.878109 | 1.871580 | 0.050920 | 2.194428 | 3.852199 |
| Jarque-Bere | 24.38085 | 5.327378 | 16.55528 | 9.158655 | 10.09470 | 14.19288 | 2.917091 | 3.100555 | 6.116652 | 3.646020 | 14.49711 |
| Probability | 0.000005 | 0.069691 | 0.000254 | 0.010262 | 0.006426 | 0.000828 | 0.232514 | 0.212189 | 0.046966 | 0.161539 | 0.000711 |

**Note:** CPS = Credit to the private sector; GDP = Gross domestic product; INF = Inflation rate; INV = Investment (GFCF); M2 = Broad money supply; POLSTAB = Political stability (proxy for institutional framework); QGOVT = Quality of Governance (proxy for institutional framework); GEXP= Government expenditure; UNE = Unemployment rate and VTS = Value of traded stocks.
**Source**: EView 12.

Table 12 showed the features or statistical characteristics of the data used in this study. It is important to note that credit to the private sector, inflation and broad money supply, are the monetary variables of this study representing monetary policy indicators while investment (GFCF) and GEXP represents fiscal policy variables. The quality of governance and political stability represents the institutional variables of this study. Ever since the time of Adam Smith, a great importance has been attached to institutional issues. According to him, government is needed for effective implementation of economic policy, be it monetary and fiscal policy measures. In order to meaningfully assess the impact of institutions on the capital market performance, it is important to take a close look at the various measures of institutions. The measures include capturing socio-political stability (coups d'etat and revolutions); the second set of variables are those capturing the quality of government and administration (measures of corruption, protection of property rights and enforcement of contract), and the third institutional variables is democracy, rule of law. The fourth category is on voice and accountability and government effectiveness (Ajayi, 2002). Until recently, there has been paucity of empirical studies on capital market performance involving institutions and institutional framework.

From the empirical results presented in Table 12, the mean/average values of these variables are mostly positive except the institutional variables (political stability and quality of governance), this implies that institutional variables may not have contributed positively to the development of the capital market performance. Next, we examined the skewness of the variables. From the results, with the exception of quality of governance, the other included variables suggested a positive skewness value; this means that the distribution is positively skewed while a negative mean implies that the distribution is negatively skewed. The standard deviation measures the average distance between each quantity and mean. From the results presented in Table 12, CPS, GDP, INV M2, MCAP and GEXP, VTS have high standard deviations suggesting that these variables are more spread out than the others. It implies that the values are above the mean. However,

POLSTAB, QGOVT and UNE have low standard deviation suggesting that the values are below the mean. In relation to this study, the standard deviation measures market volatilities measuring how widely stock performance are dispersed from the average price. The variables with high standard deviations suggested high volatility while the variables with low standard deviation suggested low volatility. Skewness also measures the asymmetry of the distributions.

Kurtosis measures whether the data are normal distribution or not. From the result, CPS and INF have high kurtosis, implying the presence of outliers, while GDP, GFCF (INV), M2 and MCAP have low kurtosis, implying the absence of outliers in these variables. The probability values of the Jarque-Bera suggested that CPS, INF, M2 and MCAP, GEXP and VTS exhibited no standard normality features while GDP, INV, POLSTAB and QGOVT and UNE exhibited normal distribution.Table 13 presented the correlation matrix. The result displays the correlation coefficients for the different variables used in this study. The matrix depicts the correlation between all the possible pairs of values.

**Table 13:** Correlation Matrix Results

| Variables | MCAP | CPs | GDP | INF | INV | M² | POLSTAB | QGOVT | GEXP | UNE | VTS |
|---|---|---|---|---|---|---|---|---|---|---|---|
| MCAP | 1.000000 | 0.917112 | 0.933012 | -0.313579 | | | | | | | |
| CPS | 0.917112 | 1.000000 | 0.924039 | -0.261998 | | | | | | | |
| GDP | 0.933012 | 0.924039 | 1.000000 | -0.320892 | | | | | | | |
| INF | -0.313579 | -0.2661998 | 0.320892 | 1.000000 | | | | | | | |
| INV | 0.956414 | 0.966997 | 0.981065 | -0.31380 | 1.00000 | | | | | | |
| M² | 0.952039 | 0.966214 | 6.982175 | 0.323368 | 0.994999 | 1.000000 | | | | | |
| POLSTAB | -0.591112 | -0.557791 | -0.736981 | 0.210709 | -0.651727 | -0.663190 | 1.00000 | | | | |
| QGOVT | -0.511095 | -0.555840 | -0.655031 | 0.19988 | -0.607770 | -0.618458 | 0.526966 | 1.000000 | | | |
| GEXP | 0.902536 | 0.838725 | 0.945500 | -0.351882 | 0.940321 | 0.932751 | -0.675218 | -0.6264481 | 1.0000000 | | |
| UNE | 0.810133 | 0.849404 | 0.882331 | -0.449637 | 0.879732 | 0.886251 | -0.697137 | -0.665776 | 0.821213 | 1.00000 | |
| VTS | 0.784486 | 0.751743 | 0.842561 | -0.292384 | 0.830597 | 0.827678 | -0.602336 | -0.616354 | 0.885567 | 0.724905 | 1.000000 |

**Source**: E-View 11 Version Computation

From the results presented in Table 13, the monetary policy variables (CPS, M2) were positively correlated with MCAP, while INF was negatively correlated as expected. On the other hand, the fiscal policy variables (INV, GEXP) were positively correlated with MCAP. Meanwhile, the institutional variables (POLSTAB, QGOVT) were negatively correlated. The implications of these results follow thus: (a) with the exception of inflation, the monetary policy indicators have a very strong linear relationship with capital market performance, (b) the fiscal policy variables were also strongly and linearly related with capital market performance, (c) the institutional variables are not strongly related with capital market performance. The results of the institutional variables are in contrast with the submissions of Ahmed.And Poluk (2013) that argued that political stability is expected to promote growth of the economy including the capital market as it promotes infrastructure and services and ensures foreign investment. From the result, it was observed that the diagonal of the correlation matrix is equals 1, implying that the diagonal is a correlation of a random variable with itself. Each diagonal element is between -1 and +1 inclusive. The unit root test result is presented in Table 14.

**Table 14:** Unit Root Test Results

| Variables | Level | 1st/2nd Difference | Order of Integration | Level | PP 1st/2ndDifference | Order of Integration |
|---|---|---|---|---|---|---|
| MCAP | -6.007442 | *** | I(1) | -7.239457 | | I(1) |
| CPS | -4.507184 | *** | I(1) | -15.91110 | | I(1) |
| GDP | -5.319995 | *** | I(1) | -5.308887 | | I(1) |
| INF | -6.7571165 | *** | I(1) | -13.15958 | | I(1) |
| INV | -4.084679 | *** | I(1) | -4.789655 | | I(1) |
| $M^2$ | -4.817589 | *** | I(1) | -4.5523211 | | I(1) |
| POLSTAB | -13.89320 | *** | I(1) | -25.89128 | | I(1) |
| QGOVT | -10.77729 | *** | I(1) | -40.02037 | | I(1) |
| GEXP | -10.27564 | *** | I(1) | -6.419481 | | I(1) |
| UNE | -6.128475 | *** | I(1) | -6.1141.21 | | I(1) |
| VTS | -5.225454 | *** | I(1) | -22.59904 | | I(1) |

**Note:** *, **, *** denotes rejection of the null hypothesis at the 10%, 5% and 1% significance levels @ (-3.580, -2.930 & -2.600)
**Source:** EView 12

The unit root test results suggest that variables are integrated at order I(1) at the various levels of significance. Stationarity means that the statistical properties of a time series (or rather the process generating it) do not change over time. Stationarity is important because many useful analytical tools (co-integration and error-correction) model rely on it. From the result, it can be concluded that the null hypothesis of no stationarity was rejected. Table 15 present the Johansen co-integration test result. The results showed scenarios where two or more non-stationary time series are integrated together in a way that they cannot deviate from equilibrium in the long-term.

**Table 15a:** Johansen Co-integration Test (Unrestricted Co-integration Rank Test (Trace)

| Hypothesized No of CE(s) | Eigenvalues | Trace Statistics | 0.05 Critical Values | Prob ** |
|---|---|---|---|---|
| None * | 0.989232 | 513.2863 | 197.3709 | 0.0001 |
| At most 1* | 0.977087 | 359.2263 | 159.5297 | 0.0000 |
| At most 2* | 0.911835 | 230.8406 | 125.6154 | 0.0000 |
| At most 3* | 0.759070 | 148.2702 | 95.75366 | 0.0000 |
| At most 4* | 0.643272 | 99.87974 | 69.81889 | 0.0000 |
| At most 5* | 0.572886 | 64.83316 | 47.85613 | 0.0006 |
| At most 6* | 0.439082 | 35.90928 | 27.79707 | 0.0087 |
| At most 7* | 0.318536 | 16.25112 | 15.49471 | 0.0384 |
| At most 8 | 0.090138 | 3.211721 | 3.84166 | 0.0731 |

**Note:** Trace test indicates 8 co-integrating equ(s) at the 0.05 level, * denotes rejection of the hypothesis at the 0.05 level and ** MacKinnon-Haug-Michelis (1999) P-values
**Source:** EView 10

Table 15a presents the Johansen Trace co-integrated test results. From the result, it was suggested that there were 8 co-integrating vectors using the trace statistics. This implies that there existed long run equilibrium association between capital market performance and monetary-fiscal policy on one hand and institutional variables on the other hand. Table 15b present the Max-eigen value co-integration test.

**Table 15b:** Johansen Co-integration Test (Unrestricted Co-integration Rank Test (Maximum Eigenvalue)

| Hypothesized No of CE(s) | Eigenvalues | Max-Eigen Statistic | 0.05 Critical Values | Prob ** |
|---|---|---|---|---|
| None * | 0.989232 | 154.0600 | 58.43354 | 0.0000 |
| At most 1* | 0.977087 | 128.3857 | 52.36261 | 0.0000 |
| At most 2* | 0.911835 | 82.57040 | 46.23142 | 0.0000 |
| At most 3* | 0.759070 | 48.39046 | 40.07757 | 0.0045 |
| At most 4* | 0.643272 | 35.04658 | 33.87687 | 0.0361 |
| At most 5* | 0.572886 | 28.92393 | 27.58434 | 0.0335 |
| At most 6* | 0.439082 | 19.65811 | 21.13162 | 0.0793 |
| At most 7* | 0.318536 | 13.0392 | 14.26460 | 0.0774 |
| At most 8* | 0.090138 | 3.2117 | 3.841466 | 0.0731 |

**Note:** Max-eigen value test indicates 6 co-integratingequ(s) at the 0.05 level of significance; * denotes rejection of the hypothesis at the 0.05 level; ** denotes MacKinnon-Haugh-Michelis (1999) P-value.
**Source:** EView 12.

Table 15b represents the maximum co-integration rank test, suggesting also a long-run co-integrating vector association between monetary, fiscal policies and capital market performance in Nigeria within the reviewing period. Table 16 presents the normalized co-integrating coefficients. A method for normalizing co-integrating vectors was proposed for co-integrating time series systems containing multiple co-integrating vectors, a method requiring than an identify matrix appear in the normalized co-integrating matrix with unit coefficients attached to the endogenous or choice variables. This implies that the normalized co-integrating matrix and the adjustment matrix are to be consistent with the implications of static and dynamic economic theory.

**Table 16:** Normalized Co-integrating Coefficient

| MCAP | CPS | GDP | INF | INV | M2 | POLSTAB | QGOVT | GEXP | UNE | VTS |
|---|---|---|---|---|---|---|---|---|---|---|
| 1.000000 | 6.22 (0.51) | 14.28 (1.77) | -0.0028 (0.000) | 5.03 (6.2) | -6.19 (1.89) | -6.33 (1.26) | -70.83 (6.09) | -3.66 (0.13) | 6.25 (0.24) | 8.26 (1.26) |

**Source**: EView10

The signs of the normalized co-integrating coefficients are reversed to enable proper interpretation. From the result presented in Table 16, INF, M2 and GEXP, POLSTAB and QGOVT have negative signs. This implies that when variables increase, MCAP decreases. The coefficient of INF for example was negative, hence as INF increases, the

value of market performance decreases. The result is applicable to M2 for monetary policy. Again, as government expenditure increases, MCAP performance decreases. In summary and from the result, the monetary-fiscal policy measures and the institutional variables have varying influence on the performance of the capital market performance.

**Table 17:** Autocorrelation Test

| **VAR Residual Serial Correlation LM Tests** | | | | | | |
|---|---|---|---|---|---|---|
| **Lag** | **LRE* Stat** | **df.** | **Prob.** | **Rao F-Stat** | **df** | **Prob.** |
| 1 | 29.21756 | 16 | 0.0225 | 2.177109 | (16,37.3) | 0.0253 |
| 2 | 11.40815 | 16 | 0.7836 | 0.684729 | (16,37.3) | 0.7901 |
| 3 | 31.52469 | 16 | 0.0115 | 2.418192 | (16,37.3) | 0.0132 |

**Source**: EView 12

Table 17 presents the autocorrelation test. From the table, lag 1 and 3 are significant while lag 2 was insignificant. The significant values imply the rejection of the null hypothesis at the 5% significance level. Table 18 presents the normality test.

**Table 18:** Normality Test

| **Component** | **Jarque-Bera** | **df.** | **Prob.** |
|---|---|---|---|
| 1 | 26.94485 | 2 | 2.1346 |
| 2 | 12.68914 | 2 | 1.3456 |
| 3 | 13.61733 | 2 | 7.123 |
| 4 | 6.125055 | 2 | 5.2341 |
| Joint | 59.37637 | 8 | |

**Source:** EView 12

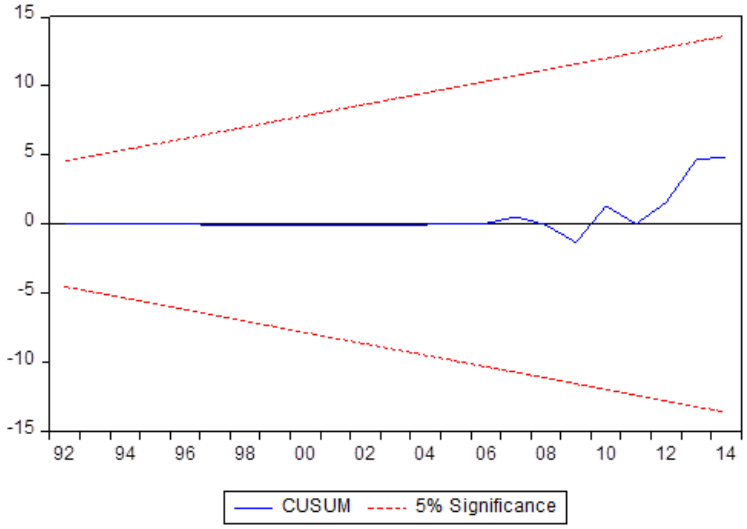
Table 18 showed the normality test. From the test, the prob (>0.05) implies that the variables are normally distributed and therefore, the rejection of the null hypothesis. Table 19 presents the residual heteroskedasticity test.

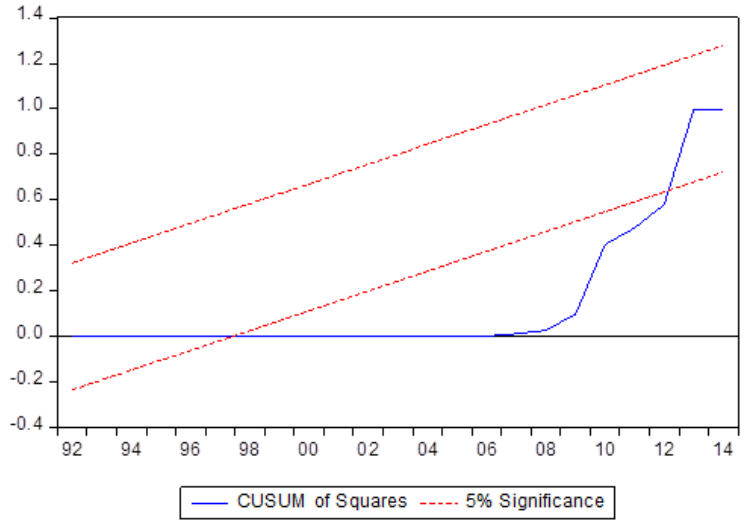
**Table 19:** Residual Heteroskedasticity Test

| Joint test | | |
|---|---|---|
| Chi-Sq | Df | Prob |
| 269.0509 | 240 | 1.2345 |

**Source**: EView 12

Table 19 showed significant residual heteroscedasticity at the 10% significance level, this implies that the null hypothesis of no heteroscedasticity was rejected, and the alternative hypothesis accepted. This denoted that the model was homoscedastic. In summary, the results suggest that the model was normally distributed, homeskedastic and serially uncorrelated and the parameters appear to be reliable. Figure 1 and 2 showed the model stability results. The CUSUM test is presented in figure 1.




**Source**: EView 10

From the results, this study accepted the alternate hypothesis and rejected the null hypothesis that there is no dynamic impact of capital market performance to monetary, fiscal and institutional framework.

**Implication of Findings**

The empirical results have some policy implication as follows:

i) Credit to the private sector had a negative and insignificant impact on capital market performance. This implies a monetary policy action on the part of the Central Bank of Nigeria.

ii) Inflation had a positive but insignificant impact of market performance. This implies that the CBN must target inflation. This is to reduce the damage on fixed income securities.

iii) The coefficient of broad money supply was negative and insignificant. This implies that the monetary authorities-CBN must review the banking sector reforms.

iv) From the result, investment and government expenditure had negative and insignificant impact on market performance. This implies that Government needs to review its investment and expenditure policy. This is to improve the profitability of the firms.

v) Political stability had negative and insignificant impact on market performance. This implies measures to promote and strengthen the regulatory frameworks.

vi) The quality of governance had positive impact on market performance. This implies strengthening of the institutional frameworks.

vii) Both positive GDP and employment suggested that the capital market has positive impact on the economy. This implies the promotion of market activities to sustain the performance of the market.

viii) The results of the variance decomposition and the impulse response function suggested the predictability of MCAP by itself and by the variables of the model. This implies that shock on the market may tend to reduce its impact on the economy.

**Conclusion**

This paper has examined macroeconomic policy, quality of governance and stock market capitalization in Nigeria. From the result, there is a co-integrating relationship among fiscal policy, monetary policy and stock market capitalization. This implies that monetary policy –fiscal policy and institutional framework when efficiently implemented by the government has the potential of promoting the capital market development in Nigeria in the long-run. Therefore, the following are recommending the monetary authority should target inflation through contraction measures in order to stabilize prices and prevent risk in the stock market behavior; the CBN should initiate monetary policy easing framework that would continue to translate to stock market performance and stable money supply should be maintained to drive capital market investment that promotes the efficiency and performance in the stock exchange market. This is in line with the fact that an increase in money supply will keep the stock attractive to both domestic and international investor. Although the relationship between investment and capital market performance is low, there is the need to broaden the investor's base in the country; this can be achieved through strengthening the ease of doing business in Nigeria.

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