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Assessing Nigeria's Stabilization Policy: Impacts on Economic Growth and the Quest for Sustainable Development

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Abstract

This study examined the effect of stabilization policy on economic growth in Nigeria. The objectives were to determine if stabilization variables such as government expenditure, government revenue, Monetary Policy Rate (MPR) and Treasury bill operations impacts on All Share Index in Nigeria. Expost facto design was adopted. Data were collected from CBN statistical bulletin from 1985 to 2023. Unit root test, ordinary least square, co-integration and error correction techniques were used for the analyses. Results showed that government expenditure has incremental effect on capital market performance while its revenue tools have recuing effect on the same market. Moreover, both monetary policy rate and Treasury bill operations were found to have contractionary effect on the market at the long run. This study therefore concluded that fiscal policy has more stabilizing effect on the capital market performance than monetary policy. It recommended that Government should increase its spending especially in the area of infrastructural development as this will help businesses to expand and lead to more investments at the capital market. It also urged that MPR showed be reviewed download as this will reduce interest rate and increase investment at the stock market.

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Background to the Study

Stabilization policy is a strategy enacted by a government or its central bank that is aimed at maintaining a healthy level of economic growth and minimal price changes (Adams, 2021). Sustaining a stabilization policy requires monitoring the business cycle and adjusting fiscal policy and monetary policy as needed to control abrupt changes in demand or supply. A stabilization policy, as used in business news, aims to keep the economy from "slowing down" or "overheating" too much. A stabilization measure (policy) is also a package or set of measures introduced to stabilize a financial system or economy. This policy guidance represents the stability measures, which are the fiscal policy and monetary policy (Anochie & Duru, 2015). Fiscal policy can be distinguished from monetary policy.

Monetary policy, as the name implies, is one of the major economic stabilization weapons, which involve measures designed to regulate in order to control the volume, cost, availability, and direction of money and credit in an economy to achieve some specific macroeconomic policy objective. It is a deliberate attempt by the monetary authority (Central Bank) to control the money supply and credit condition for the purpose of achieving certain broad economic objectives (Onourah, Shaib, Oyathelemi & Friday 2011). It is also the control of money and bank credit, thereby regulating the cost of credit in such a way that it will affect aggregate demand in a direction that would continue to the achievement of a healthy balance of payment, price stability, and job opportunity (Andabai, Priye, Ikeora, & Anah, 2019). According to Mbutor (2010), the main objective of monetary policy in Nigeria is to ensure price and monetary stability. The monetary policy before 1986 was characterized by the dominance of the oil sector, the expanding role of the public sector in the economy, and overdependence on the external sector (Ehikioya, Uduh & Edeme, 2018). In order to maintain price stability and a healthy balance of payment position, monetary management depends on the use of direct monetary instruments such as credit ceilings, selective credit controls, administered interest and exchange rates, as well as the perception of cash reserve requirements and special deposits (Tule, Ogundele & Apinran, 2018).

On the other hand, fiscal policy entails the use of government fiscal functions such as revenue generation through multiple sources and expenditure to stimulate economic growth (Nwogo, 2024). Governments typically use fiscal policy to promote strong and sustainable growth and reduce poverty. The role and objectives of fiscal policy have gained prominence as governments have stepped in to support financial systems, jump-start growth, and mitigate the impact of the crisis on vulnerable groups (Horton & El-Ganainy, 2009; Morakinyo, David & Alao, 2018). The magnitude of the government fiscal surplus or deficit is probably one of the most important statistics used to measure the impact of government fiscal policy on the economy (Ezeabasili, Tsegba & Ezi-Herbert, 2012). Changes in the level and composition of taxation and government spending can influence the following variables in the economy: aggregate demand and the level of economic activity; the pattern of resource allocation; the distribution of income; and investment activities (Nguyen, 2018 & Solomon, 2018).

Capital market stability, through sound fiscal and monetary policy, will attract remittances, especially in the form of investments, while the provision of products targeted at recipients, like remittance bonds and foreign currency accounts, will help to pool remittances for planned investment for development. A solid and stable capital market is essential to make a well-functioning national economy and to ensure balanced liquidity within the economy (Ogbulu, Okereke & Arewa, 2011; Imade, 2021; Bello, 2022). To promote economic growth, proper liquidity management is crucial, therefore, this work examines the impact of variations in fiscal and monetary policies on capital market performance in Nigeria.

Statement of the Problem

Researchers and policy makers have deliberated heavily on the relative effectiveness of monetary and fiscal policy in stimulating financial market performance. However, there have been contrasting opinions on which of the two policies exert greater influence on capital market activity (Elakhe, 2016; Ogbonna & Ejem, 2020). Fiscal policy is thought to stifle capital market performance through the distorting effect of tax, inefficient government spending, and fiscal deficit. Therefore, in the light of the above, the question that comes to the fore is what has been the effect of fiscal policy on capital market performance in Nigeria?

Objectives of the Study

The main aim of this study is to examine the effect of stabilization policy on economic growth in Nigeria. The specific objectives are:

i. To determine if there is any significant relationship between government expenditure and All Share Index in Nigeria.
ii. To find out the impact of government revenue on All Share Index in Nigeria.
iii. To examine the relationship that exists between Monetary Policy Rate (MPR) and All Share Index in Nigeria.
iv. To determine whether Treasury bill operations impact the All-Share Index in Nigeria.

Research Questions

What significant relationship exists between government expenditure and All Share Index in Nigeria?

i. What is the impact of government revenue on All Share Index in Nigeria?
ii. What relationship exists between monetary policy rate (MPR) and All Share Index in Nigeria?
iii. To what extent does Treasury bill operations impact on All Share Index in Nigeria?

Research Hypotheses

H_o: There is no significant relationship between government expenditure and All Share Index in Nigeria.

i. H_0: Government revenue has no significant impact on All Share Index in Nigeria

ii. H_0: There is no significant relationship between monetary policy rate and All Share Index in Nigeria
iii. H_0: Treasury bill operations do not impact on All Share Index in Nigeria

Scope of the Study

The focus of the content of this study is on stabilization policy and capital market performance in Nigeria. Emphases are laid on fiscal policy tools such as government expenditure and fiscal deficit/surplus, while monetary policy tools such as monetary policy rate and treasury bill operations are used as stabilization policy mechanisms. The time frame covers 1985 to 2023 using time series data.

Review of Related Literature

Conceptual Framework

Monetary Policy

The term "monetary policy" generally refers to a set of actions intended to control the supply, value, and cost of money in an economy in accordance with the anticipated level of economic activity (Nnanna, 2001). Monetary policy refers to the combination of measures designed to regulate the value, supply, and cost of money in an economy. Monetary policy, according to Ezenduyi (1994), is the process of adjusting the money supply (via a variety of methods), interest rates, and exchange rates, as well as the assumption that these changes will have an impact on the level of economic activities and inflation in the desired direction. It can be defined as the art of controlling the direction and movement of credit facilities in pursuit of stable price and economic growth in an economy (CBN, 2010). Targeting is the mapping up of excess liquidity armed at ensuring a non-inflationary macroeconomic environment. Monetary policy can be defined as the instruments at the disposal of the monetary authorities to influence the availability and cost of credit/money with the ultimate objective of achieving price stability (Ibeabuchi, 2007).

Fiscal Policy

Fiscal policy entails the use of government fiscal functions such as revenue generation through multiple sources and expenditure to stimulate economic growth (Solomon, 2018). Fiscal policy is usually used by governments to combat poverty and encourage robust, sustained growth. The role and objectives of fiscal policy have gained prominence as governments have stepped in to support financial systems, jump-start growth, and mitigate the impact of the crisis on vulnerable groups (Horton & El-Ganainy, 2009). According to Obayori (2016), fiscal policy entails using taxes and spending collected by the government to affect the volume of economic activity in an economy. In the context of complex economic development, this policy aims to lessen variances in aggregate spending, which are significant contributors to changes in economic activity. Fiscal policy is also the use of government revenue collection (taxation) and expenditure (spending) to influence the economy (Arthur & Sheffrin, 2003).

Capital Market

The capital market has been identified as an institution that contributes to the socio-economic growth and development of emerging and developed economies (Donwa & Odia, 2010). This is made possible by several crucial functions, including resource allocation, the encouragement of financial sector modernization reforms, the ability of financial intermediation to connect the economy's surplus and deficit sectors, and a true tool for mobilizing and allocating savings among competitive uses that are essential to the economy's growth and efficiency. It helps to channel capital or long-term resources to firms with relatively high and increasing productivity, thus enhancing economic expansion and growth (Anyamaobi & Boma-Oruwari, 2021). The role of the capital market is to mobilize long-term funds to be channeled towards industrial development (Udo, Nwezeaku & Kanu, 2021). Adding, Araoye (2021) sees the capital market as the pivot upon which any economy revolves, especially in its role of creating, mobilizing, and rationing long-term funds for economic growth and development.

Monetary Policy and Capital Market Performance

Stock markets have a multidimensional role to play in connection with monetary policy decision-making. While monetary policy innovations have a significant impact on stock market performance through a variety of channels, stock prices also significantly reflect economic developments and can therefore be considered by monetary policy authorities when making policy decisions (Chatziantoniou, Duffy & Filis, 2015). Accordingly, stock market performance not only influences the economy and reacts to monetary policy actions, but it also gives central banks insight into what the private sector anticipates will happen to important macroeconomic factors in the future (Mishkin, 2001).

Monetary policy's impact on interest rates and share prices is pertinent to a number of potential channels through which central bank actions could be transmitted to the actual economy. For example, the central bank controls the monetary policy rate, which purportedly affects market-determined interest rates and asset prices and, in turn, real variables through various possible investment and consumption channels. Bissoon, Seetanah, Bhattu-Babajee, Gopy-Ramdhany, and Seetah (2016) point out that financial markets and more specifically stock markets are considered as being highly sensitive to changes occurring in the economy. In the view of these authors, monetary policies are usually undertaken to restore or maintain stability within an economy, and such policies can either be expansive or restrictive, with central banks using interest rates and money supply as monetary policy instruments.

Fiscal Policy and Capital Market Performance

Government expenditure comes in two main forms: recurrent and capital expenditure. While the recurrent expenditure refers to financial outlays necessary for the day-to-day running of government businesses, the capital expenditure refers to investment outlets that increase the assets of the state, and these categorizations are not mutually exclusive but inter-linked (Agbonkhese and Asekome, 2014) While an increase in government spending may lead to a fiscal deficit. Yet, cutting government spending could have a

negative impact on the economy; yet a fiscal imbalance is created when government spending exceeds the economy's ability to collect taxes because of current expenses or unproductive use (Chude, Chude, Daniel & Arinze, 2019).

Theoretically, one's choice of Keynesian, Classical, or Ricardian economic theory determines how fiscal policy affects the economy. Keynesian theory lays out the recommendations for how fiscal policy should be used to stabilize economic volatility. Specifically, discretionary fiscal policy ought to behave countercyclically, much like automatic stabilizers. The degree and makeup of the government's participation in the economy will determine the combination of automatic and discretionary stabilizers. In contrast to Keynesian fiscal policy, a Ricardian perspective states that policy cannot affect aggregate demand since rational people's private savings will balance any public borrowing (Chatziantoniou, Duffy & Filis, 2015). On the other hand, classical economists emphasize that fiscal policy crowds out private sector activity in markets, and thus, its effects will be less important in an economy that operates close to its potential output.

Theoretical Framework

Keynesian Theory

Keynesian theory posits that increased government spending stimulates aggregate demand, leading to higher output and employment, particularly during recessions (Keynes, 1936). In Nigeria, this aligns with expansionary fiscal policies such as infrastructure projects and social programs aimed at boosting economic activity. However, the Neoclassical perspective warns of potential crowding-out effects, where excessive public borrowing raises interest rates, stifling private investment (Barro, 1990). Nigeria's high recurrent expenditure (e.g., subsidies, public wages) often limits capital spending, reducing growth benefits (Oluwatobi & Ogunrinola, 2011). Wagner's Law further suggests that as an economy grows, government expenditure naturally increases, implying a bidirectional relationship (Wagner, 1893). Empirical studies in Nigeria show mixed results: while productive spending (e.g., roads, education) correlates with growth, wasteful expenditure exacerbates fiscal deficits (Aigbokhan, 2015). Thus, Nigeria's fiscal policy effectiveness hinges on expenditure efficiency and structural reforms to minimize leakage and corruption.

Government Revenue

Government revenue's role in economic growth is anchored in taxation theory and fiscal sustainability models. The Laffer Curve (Laffer, 1974) argues that optimal tax rates maximize revenue without deterring productivity, a challenge for Nigeria's narrow tax base and oil-dependent economy. Modern Monetary Theory (MMT) contends that sovereign governments with monetary autonomy can use revenue strategically to stimulate growth without immediate inflationary pressures (Kelton, 2020). However, Nigeria's reliance on volatile oil revenues (over 60% of total revenue) exposes it to external shocks, undermining fiscal stability (CBN, 2023). Non-oil revenue reforms, such as VAT increases and tax automation, aim to diversify income but face implementation hurdles (FIRS, 2022). Empirical evidence suggests that efficient revenue utilization—such as

funding infrastructure and social services—enhances growth, whereas misallocation fuels debt and inflation (Adegbite & Alabi, 2013).

Monetary Policy Rate (MPR)

The Monetarist framework (Friedman, 1968) views the MPR as a tool to control inflation via money supply adjustments, often at the expense of short-term growth. Nigeria's Central Bank (CBN) frequently raises MPR (e.g., 18.75% in 2024) to curb inflation, but high rates may stifle SME credit and investment (CBN, 2024). Conversely, the New Keynesian model (Clarida et al., 1999) advocates for counter-cyclical MPR adjustments to stabilize output gaps. In Nigeria, structural constraints (e.g., high informality, weak transmission mechanisms) dilute MPR effectiveness (Nnanna, 2004). Taylor Rule applications suggest Nigeria's MPR often deviates from optimal levels due to exchange rate and inflation volatility (Oyelakin, 2022). Empirical studies confirm MPR's short-term growth impact but highlight the need for complementary fiscal and structural policies (Sanusi, 2010).

Treasury Bill (T-Bill) Operations

T-bills' economic impact is analyzed through liquidity preference theory (Keynes, 1936) and crowding-out hypothesis (Friedman, 1970). In Nigeria, T-bills serve as primary tools for liquidity management and government financing, but excessive issuance (N14.3 trillion in 2023) raises domestic debt sustainability concerns (DMO, 2023). High T-bill yields (e.g., 12–15%) attract investor funds but may divert capital from the private sector, exacerbating credit constraints (Adegbite & Alabi, 2013). Portfolio balance models suggest T-bills can stabilize financial markets, but Nigeria's shallow capital markets limit their growth-enhancing potential (Soludo, 2008). Recent CBN policies, such as discretionary rollovers, aim to balance debt servicing costs and private sector credit access (CBN, 2024).

All Share Index (ASI) in Nigeria

The ASI-growth nexus draws from financial development theories (Demirgüç-Kunt & Levine, 1996), which posit that stock markets facilitate capital allocation and risk diversification. Liquidity hypothesis argues that ASI growth enhances investment efficiency, but Nigeria's stock market remains shallow (1.3% of Africa's total capitalization) and volatile (SEC, 2023). Behavioral finance theories (Shiller, 2000) attribute ASI fluctuations to investor sentiment and external shocks (e.g., oil prices, forex policies). Empirical studies find weak ASI-GDP correlations due to low market depth and institutional weaknesses (Okodua & Ewetan, 2015). Reforms like the Companies and Allied Matters Act (CAMA) 2020 aim to boost listings, but structural barriers (e.g., low investor confidence, illiquidity) persist (NSE, 2023).

Empirical Review

Chatziantoniou, Duffy, and Filis (2015) employed a structural VAR model to investigate the effects of monetary and fiscal policy shocks on stock market performance in Germany, the UK, and the US. The results showed that both fiscal and monetary policies influence the stock market, via either direct or indirect channels. More importantly, the study found

evidence that the interaction between the two policies is very important in explaining stock market developments. Thus, investors and analysts, in their effort to understand the relationship between macroeconomic policies and stock market performance, should consider fiscal and monetary in tandem rather than in isolation.

Akinkuotu (2017), empirically examined the effects of anticipated and unanticipated fiscal and monetary policies on the performance of the stock market. The study used stationarity, cointegration, and vector error correction models. The empirical results obtained showed that both anticipated fiscal policy and monetary policy had a negative relationship with stock market performance in the long run. It was noticed that anticipated monetary policy causes more variations in the performance of the stock market than the anticipated fiscal policy component. There exists a unilateral relationship between anticipated fiscal and stock market performance, anticipated monetary policy and the stock k market, interest rates and stock market, stock market and exchange rate, anticipated fiscal policy and exchange rate, and interest rate and exchange rate. Unexpected monetary policy measures have a minimally favorable and significant impact on the stock market, whereas unexpected fiscal policy actions have a positive but not significant association with the stock market. Unexpected monetary policy likewise has little effect on the stock market, but it is less significant than unexpected fiscal policy. Both unexpected fiscal policy acts have had very little effect on the stock market. However, there was neither a unilateral nor a bilateral association between the stock market performance and unexpected fiscal or monetary policy. Finally, the analysis discovered that monetary and fiscal policies had complementary effects on stock market performance. These findings suggest that policy makers need to exercise considerable caution regarding the fiscal-monetary policy stance and stock market regulation in Nigeria.

Hu, Han, and Zhang (2018) studied the impact of Chinese monetary and fiscal policy shocks and the interaction of the two policies on stock markets. We find that, first, when we focus on the contemporaneous correlation, Chinese fiscal policy has significant, negative contemporaneous relationships with stock market performance, while monetary policy's impact on stock market performance varies, depending on the fiscal policy. Second, with respect to the lagged variables, Chinese monetary and fiscal policies both have a significant and direct positive effect on stock market performance. Meanwhile, interaction between the two policies plays an extremely important role in explaining the development of stock markets.

Kolapo, Oke and Olaniyan (2018) unraveled the impact of macroeconomic fundamentals on stock market performance in Nigeria for the periods from 1986 to 2015. Data were collected on all-share index, gross domestic product, money supply, interest rate, inflation rate, and exchange rate sourced from the Nigerian Bureau of Statistics Bulletin, the Central Bank of Nigeria Statistical Bulletin, and the World Bank Development Indicators Database. The autoregressive distributed lag (ARDL) bounds testing technique was adopted in this study as its estimation technique. Gross domestic product

(GDP) and money supply (MS) were found to have significant impacts on stock market performance in Nigeria. Furthermore, all the features in this study except money supply (MS) and interest rate were positively related to stock market performance, and there is the presence of a long run run relationship (co-integration) between macroeconomic fundamentals and stock market performance.

Orekoya, Afolabi and Akintunde (2018) investigated the linkage between government policies and stock market performance in Nigeria from 1985 to 2018. Using the fully modified OLS (FMOLS) model and the Bounds cointegration test, it investigated the linear and non-linear effects of policy interactions with stock market performance. The results of the Bounds cointegration test showed a long-term linear correlation between Nigerian stock market performance and governmental actions. The results of the non-linear test, however, indicated that only fiscal policy has a long-term correlation with stock market performance; the relationship between monetary policy and stock market performance is unclear. Both fiscal and monetary policies have a major impact on stock market performance, according to the FMOLS conclusion, but contractionary fiscal policy seems to have a greater impact than its monetary equivalent. Contractionary policies have a greater impact on stock market performance than expansionary policies, according to the non-linear relationship. All things considered; fiscal policy has a greater impact on stock market performance than monetary policy.

Udi and Ohwofasa (2018) explored selected determinants of the stock market in Nigeria for the period 1986-2016. The determinants investigated included market capitalization, per capita income, interest rate, exchange rate, inflation, and the economy's level of openness, some of which are monetary policy tools such as interest rate and exchange rate. The econometric methodology adopted was an error correction model. The study finds that interest rate, inflation rate, and past level of market capitalization were the major determining factors for trading activities at the Nigerian Stock Exchange. It also finds a negative relationship between stock market performance and inflation, interest rates, and per capita income.

Eneje, Obidike, Ani and Jacpuno (2019) examined the relationship between fiscal policies and the expansion of the Nigerian stock market. The Central Bank of Nigeria Statistical Bulletin provided the thirty-year span of data, from 1986 to 2016. The data was analyzed using multivariate regression using the ordinary least squares method. The study's findings offer environmental proof of the long-term equilibrium relationship between Nigeria's stock market growth and fiscal policy during the examined period. Fiscal policy and the expansion of the Nigerian stock market were significantly and favorably correlated throughout time. On the other hand, debt overhang (government debt to real GDP ratio) showed a significant but negative long-run relationship with stock market growth. Based on the impulse response function, the response of the stock market to fiscal policy was positive for the first three periods and then became negative for the rest of the periods.

Chen (2021) explored the impacts of monetary and fiscal policy on the stock market with evidence from Australia, China, 11-member countries of the Eurozone (combined), and the United States. However, the findings show that because market expectations fluctuate among nations, the impact of monetary policy on stock market performance varies as well. In contrast to surprise announcements, routine announcement periods are generally associated with a less volatile stock market index. Keynesian, Ricardian, or classical economic theories can all be used to explain the fiscal side of things and how it relates to stock market performance. The findings show that, in normal macroeconomic circumstances, the stock market reacts negatively to an expansionary approach; however, during economic downturns, a positive association is shown. Additionally, the money supply channel is used to analyze an indirect relationship between fiscal policy and stock market performance.

Kicia and Kordela (2023) investigated how fiscal and monetary policy in Poland evolved and adjusted to economic challenges in 1998–2022. To determine which fiscal and monetary policy measures significantly predicted a subset of variables reflecting the evolution of Poland's capital market, multiple linear regression was applied to each dependent variable. Seven different models used monetary and fiscal policy variables as descriptors to explain capital market parameters. Between 77.3% and 95.4% of the volatility of the capital market characteristics can be explained by multiple regression models. One of the factors that most affect the capital market is the level of the central bank's reference rate. The interest rate was a significant element in six of the seven models. The growth of the capital market coincided with an increase in the tax-to-GDP ratio. Simultaneously, the tax-to-GDP increase had a significant detrimental effect on the stock trading of domestic institutional investors.

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

Nwogo (2024) investigated the effect of fiscal policy on stock market performance in Nigeria. The study adopted an ex post facto research design and employed time series data sourced from the CBN statistical bulletin and the Nigeria Stock Exchange Group. Evidence of a long-run relationship was found among the model variables through the Johansen test and a fast speed of adjustment at 10.01% annually. The major findings of the study are that government Capital expenditure has a Expenditure has a significant positive effect on the stock market performance in Nigeria; government recurrent expenditure has a significant positive effect on the stock market performance in Nigeria;

company income tax has a significant negative effect on the stock market performance in Nigeria; and petroleum profit tax has a significant negative effect on the stock market performance in Nigeria. The study concluded that fiscal policy had a significant but mixed effect on the stock market performance in Nigeria for the period reviewed. The methodological gaps in previous works in the literature stem from varying instruments of monetary policies investigated. This study then intends to understand the effect of monetary policy instruments such as monetary policy rate, cash reserve ratio, and money supply on economic growth in Nigeria. Thus, this study is an improvement on existing extant literature in Nigeria as it uses the most recent data.

Research Methodology

The study made use of an ex-post *facto* research design. This is used because the study is based on time series events and intends to investigate the strength of the relationship between two or more economic factors on which the research is based.

Sources of Data

The study relied heavily on secondary sources of data. Data were collected from the publications of CBN, which include annual reports and the Bullion and Statistical Bulletin. The data to be sourced include the All-Share Index (ASI), government expenditure (GEX), government revenue (GREV), monetary policy rate (MPR), and treasury bill operation (TBO) from 1985 to 2023.

Model Specification

ASI = F (GEX, GREV, TBO, MPR) ……...…. (1)

Where: ASI = All Share Index
GEX = Government expenditure
GREV= Government revenue
MPR = Monetary policy rate
TBO= Treasury bill outstanding

$$ASI_t = b_0 + b_1 GEX_t + b_2 GREV_t + b_3 MPR_t + b_4 TBO_t + U_{1t} \quad \text{.....(2)}$$

Where:
b_1, b_2, b_3, and b_4, are parameter estimates for GEX, GREV, TBO, and MPR respectively.
U_{1t} = Error terms
b_0 = intercept of ASI_t model
t = number of years

Data Analysis Techniques

This study will adopt the unit root test, ordinary least square, co-integration and error correction techniques to estimate the models.

Augmented Dickey Fuller Unit Root Test

To analyze the econometric model specified above, a unit root test based on the Augmented Dickey-Fuller (ADF) test will be carried out first to find out whether the time-series variables (ASI variables (ASI, GEX, GREV, TBO, and MPR)) are stationary or not. If the time series variables are stationary, this will prevent spurious results and the problem of autocorrelation. However, in most cases time series variables are non-stationary in nature; and thus, running a regression analysis on non-stationary variables will result in spurious results, which in turn will lead to a wrong inference by establishing that the variables are correlated when they are not. Using the Augmented Dickey Fuller Test (Dickey and Fuller, 1981),

The model is as follows:

$Y: = Py_{r-1} + e_t$

Where:

$P = 1$

However, we regress Y_t on its (one period) lagged value Y_{t-1} and find out if estimated p is statistically equal to 1.

Co-integration Test

Co-integration deals with the methodology of modeling non-stationary time series variables. As a result, if co-integration is established, a parsimonious error connection model will be estimated. This will be preceded by estimation of an overparameterized model to remove variables that were either not correctly signed or insignificant.

To this end, the long-run relationship between the independent variables (GEX, GREV, TBO, and MPR) and the dependent variable (ASI) was examined. When time series variables are non-stationary, it is interesting to see if there is a certain common trend between those non- stationary series. If two non-stationary series stationery series Xt ~ 1 (1), Yt ~ 1 (1) has a linear relationship such that Zt = m + a. Xt + β Yt and Zt ~1(0), (Zt is stationary), then we call the two series X_t and Y_t are co-integrated.

Error Correction Model

Error Correction Model (ECM) describes the long-run equilibrium relationship between non-stationary stationary series. Even though individuals' series are non-stationary, when they are co-integrated, there is a long-run equilibrium relationship, and ECM explains this relationship. The step involves estimating an Error Correction Mechanism (ECM) by Ordinary Least Square (OLS). ECM assumes that two or more time series exhibit an equilibrium relation that determines both short-run and long-run behavior. It therefore models both short-run and long-run relations jointly. According to the Granger representation theorem, for any set of l (I) variables, error correction and cointegration are equal representations. In other words, if several variables, such as GEX, GREV, TBO, and MPR, are cointegrated, there will be ECM relating to the variables. The ECM is estimated thus:

$\Delta Yt = ao + a_1 \Delta Xt + a_2 \mu t\text{-}l + Et$

Where Δ denotes the first difference operator, a_1 is the (GEX, GREV, TBO, and MPR) coefficient, a_2 is the coefficient of the one-period lagged value of the error term from the cointegrating regression in equation (2), and *Et* is a random error term.

Presentation of Results

Table 1: Correlation Matrix

	ASI	GEX	GREV	MPR	TBO
ASI	1.000000	0.691868	0.868136	-0.374173	0.773746
GEX	0.691868	1.000000	0.766124	-0.131777	0.845960
GREV	0.868136	0.766124	1.000000	-0.353027	0.853793
MPR	-0.374173	-0.131777	-0.353027	1.000000	-0.154850
TBO	0.773746	0.845960	0.853793	-0.154850	1.000000

Source: Author's Regression Output

Table 1 shows the inter-correlations among the four independent variables in the regression model. It can be deduced that GEX has a positive correlation with GREV (0.766124) and TBO (0.845960) which implies that government expenditure is highly influenced by revenue generated from revenue sources and treasury bill sales. MPR shows a negative relationship with all the independent variables while TBO shows a positive relationship with all the independent variables except with MPR (-0.154850).

Table 2: Test for Normality and Descriptive Statistics

Date: 09/23/24 Time: 15:07
Sample: 1985 2023

	ASI	GEX	GREV	MPR	TBO
Mean	18821.67	4001.155	4367.318	13.61842	1197.810
Median	20429.79	1326.085	3247.800	13.50000	639.7679
Maximum	57990.20	24431.21	12586.53	26.00000	4422.717
Minimum	127.3000	13.04000	12.59500	6.000000	16.97600
Std. Dev.	16461.41	6104.508	4170.864	3.737021	1292.089
Skewness	0.480140	1.993375	0.402013	0.784982	0.956853
Kurtosis	2.201441	6.070210	1.664989	4.993485	2.569558
Jarque-Bera	2.469736	40.09058	3.845464	10.19472	6.091955
Probability	0.290873	0.000000	0.146207	0.006113	0.047550
Sum	715223.6	152043.9	165958.1	517.5000	45516.79
Sum Sq. Dev.	1.00E+10	1.38E+09	6.44E+08	516.7171	61771261
Observations	39	39	39	39	39

Source: Author's Regression Output

Table 2 shows the mean values of the variables, indicating that ASI has a mean of 18821.67, which implies an annual average of 18821.67 exchanged hands annually. GEX has a mean of 4001.155, which implies a government expenditure average of N4001.155b annually. GREV has a mean of 4367.318, which implies government revenue averaged N4367.318b annually. MPR has a mean of 13.61, which implies that it averaged 13.61% annually. TBO has a mean of 1197.810, which implies an annual average of ₦1197.810b sold annually. It is worthy to note that GEX has a maximum value of ₦24431.21b while GREV has a maximum value of N12586.53b, and a comparative look at the two shows that government expenditure far exceeds its revenue over the period under review, which implies fiscal deficit policy operations. MPR shows a maximum value of 26%, which goes to suggest that the lending rate in Nigeria is on the higher side since MPR determines the lending rate in Nigeria, and this may affect borrowings and lead companies to raise funds at the capital market.

The normality test shows that the Jarque-Bera probability value for ASI and GREV are 0.290873 and 0.146207, respectively, which are greater than the 0.05 level of significance, which implies that the variables are insignificant but normally distributed. GEX, MPR and TBO have probability values of 0.00000, 0.006113 and 0.047550, which are less than the 0.05% level of significance, implying that they are significant but not normally distributed.

Table 3: Granger Causality Test

Pairwise Granger Causality Tests			
Date: 09/23/24 Time: 15:10			
Sample: 1985 2023			
Lags: 2			
Null Hypothesis:	Obs	F-Statistic	Prob.
GEX does not Granger Cause ASI	37	3.46409	0.0439
ASI does not Granger Cause GEX		0.75129	0.4802
		7	
GREV does not Granger Cause ASI	37	4.50148	0.0192
ASI does not Granger Cause GREV		6.58945	0.0041
MPR does not Granger Cause ASI	37	0.26281	0.7706
ASI does not Granger Cause MPR		3.73017	0.0354
TBO does not Granger Cause ASI	37	2.51432	0.0973
ASI does not Granger Cause TBO		1.08084	0.3518

Source: Author's Granger Causality Output

The Granger causality test used to determine the direction of influence between the dependent and independent variables shows that GEX and ASI have a unidirectional causality relationship running from GEX to ASI. GREV and ASI have a bidirectional Granger causality relationship with each other. MPR has a unidirectional causality relationship with ASI running from ASI to MPR. However, there is no causality relationship between TBO and ASI.

Table 4: Summary of ADF Unit Root Test Result

Variable	ADF Test Statistics				Stationarity	
	Level	Prob	1st Diff	Prob	Level	1st Diff
D(ASI)	8.921974	0.0000	4.750608	0.0014	I (0)	I (1)
D(GEX)	2.863953	1.0000	-4.212042	0.0019	none	I (1)
D(GREV)	-2.695734	0.0872	-6.195345	0.0000	none	I (1)
D(MPR)	-2.234994	0.1975	-7.062104	0.0000	none	I (1)
D(TBO)	-3.995737	0.0010	-5.143191	0.0001	I (0)	I (1)

Source: Author's computation

From table 4, it is evident that GEX, GREV and MPR are non-stationary at levels but stationary at 1st difference, i.e., they are integrated of order 1 or I (1). All the series become stationary are first difference which implies that they are reliable for longrun analysis.

Table 5: Summary of OLS result

Dependent Variable: ASI				
Method: Least Squares				
Date: 09/23/24 Time: 15:33				
Sample: 1985 2023				
Included observations: 39				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10994.17	6571.831	1.672923	0.1038
GEX	0.073162	0.431605	0.169512	0.8664
GREV	2.656155	0.716417	3.707557	0.0008
MPR	-477.1704	416.0685	-1.146855	0.2597
TBO	2.031042	2.568454	0.790765	0.4347
R-squared	0.766907	Mean dependent var		18821.67
Adjusted R-squared	0.738653	S.D. dependent var		16461.41
S.E. of regression	8415.412	Akaike info criterion		21.03560
Sum squared resid	2.34E+09	Schwarz criterion		21.25107
Log likelihood	-394.6763	Hannan-Quinn criter.		21.11226
F-statistic	27.14362	Durbin-Watson stat		1.919727
Prob(F-statistic)	0.000000			

The model for the regression is given as ASI = 10994.1684799 + 0.0731624322045*GEX + 2.65615526123*GREV - 477.17037415*MPR + 2.03104218988*TBO

The model shows that GEX has a positive relationship with ASI (coefficient of 0.073162). That is the higher the government expenditure, the higher ASI GDP which conforms to expectation. The model also shows that GREV has a positive relationship with ASI (coefficient of 2.656155). That is, the higher the government revenue, the higher ASI which does not conform to expectation. The result also shows that MPR has a negative relationship with ASI (coefficient of -477.1704), that is, the higher the MPR, the lower the ASI which conforms to expectation. TBO has a positive relationship with ASI (coefficient of 2.031042), that is, the higher the treasury bill outstanding, the higher ASI.

The coefficient of determination (R^2) was 76.69% which implies that the variables are perfectly fitted. The adjusted R^{-2} found to be 73.86% shows that the joint presence of the independent variables is responsible for 73.86 percent of the variation found in ASI.

The F-Statistics of 27.14362 with prob value of 0.00000 implies that all the variables jointly impacted on ASI. The Durbin Watson statistic is approximately 1.919727 which shows the absence of autocorrelation, this means that our parameter estimate must be accepted as there is no possibility of spurious regression results.

Table 6: Summary of Johansen Cointegration

Date: 09/23/24 Time: 15:14					
Sample (adjusted): 1987 2023					
Included observations: 37 after adjustments					
Trend assumption: Linear deterministic trend					
Series: ASI GEX GREV MPR TBO					
Lags interval (in first differences): 1 to 1					
Unrestricted Cointegration Rank Test (Trace)					
Hypothesized		Trace	0.05		
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**	
None *	0.740854	111.6324	69.81889	0.0000	
At most 1 *	0.514053	63.01929	47.85613	0.0010	
At most 2 *	0.446089	37.03965	29.79707	0.0061	
At most 3 *	0.296593	15.77257	15.49471	0.0454	
At most 4	0.082688	3.107075	3.841466	0.0779	
Trace test indicates 4 cointegrating eqn(s) at the 0.05 level *Denotes rejection of the hypothesis at the 0.05 level **MacKinnon-Haug-Michelis (1999) p-values					
Unrestricted Cointegration Rank Test (Maximum Eigenvalue)					
Hypothesized		Max-Eigen	0.05		
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**	
None *	0.740854	48.61311	33.87687	0.0005	
At most 1	0.514053	25.97964	27.58434	0.0791	
At most 2 *	0.446089	21.26708	21.13162	0.0479	
At most 3	0.296593	12.66550	14.26460	0.0881	
At most 4	0.082688	3.107075	3.841466	0.0779	
Max-eigenvalue test indicates 1 cointegrating eqn(s) at the 0.05 level *Denotes rejection of the hypothesis at the 0.05 level **MacKinnon-Haug-Michelis (1999) p-values					

Source: Author's Computation

The result for co-integration using trace shows that there are 4 cointegrating vectors in the equation model while maximum Eigenvalue shows there is 1 cointegrating vector in the equation model which indicates that there is long-run relationship among the variables.

Table 7: ECM Result

Dependent Variable: D(D(ASI))				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-124288.7	56536.63	-2.198374	0.0928
D(D(ASI (-1)))	0.689385	0.228972	3.010777	0.0395
D(D(GEX(-1)))	20.70343	2.546495	8.130166	0.0012
D(GREV(-2))	1.505645	1.080470	1.393510	0.2359
D(GREV(-4))	11.78665	7.814319	2.404131	0.0740
D(D(MPR))	-29.34296	4.030609	-7.280030	0.0019
D(D(MPR(-1)))	6.354034	3.389276	1.874747	0.1341
D(D(TBO))	-19.99164	1.490824	-13.40979	0.0002
D(D(TBO(-1)))	-2.889849	5.181718	-0.557701	0.6068
ECM (-1)	-0.163260	0.039385	-4.145201	0.0143
R-squared	0.994084	Mean dependent var		19463.72
Adjusted R-squared	0.991126	S.D. dependent var		505138.3
Sum sq. resids	453E+10	Akaike info criterion		24.64987
S.E. equation	47585.50	Schwarz criterion		25.15870
Log likelihood	-371.0729	Hannan-Quinn criter.		24.81573
F-statistic	336.0590	Durbin-Watson stat		1.905847
Prob(F-statistic)	0.000000			

Source: Author's ECM Output

The parsimonious model result on table 7 above gives the final and precise result as opposed to the OLS level series model. Government expenditure also has a positive (20.70343) and significant long run relationship with ASI (prob.value=0.0012). The alternative hypothesis is accepted that there is significant relationship between government expenditure and All Share Index in Nigeria.

The individual series shows that government revenue has a positive (11.78665) but insignificant long run relationship with ASI (prob.value=0.0740). The null hypothesis is accepted that government revenue has no significant impact on All Share Index in Nigeria. The monetary policy rate has a negative (-29.34296) and significant long run relationship with consumption expenditure (prob.value=0.0019). The alternative hypothesis is accepted that there is no significant relationship between monetary policy rate and All Share Index in Nigeria.

Treasury bill operations have a negative (-19.99164) and significant long run relationship with consumption expenditure (prob.value=0.0002). The alternative hypothesis is accepted that Treasury bill operations does not impact on All Share Index in Nigeria.

The coefficient of the ECM term which measures the speed of the adjustment of the dependent variables at which equilibrium is restored (-0.163260) is significant and correctly signed (negative) while its prob.value is 0.0143 confirms that the variables are co-integrated. The coefficient shows a high speed of adjustment to equilibrium after some shocks and disturbance. The F-Statistics of 336.0590 with 0.0000 prob. value, indicates that the independent variables are jointly and statistically important in explaining growth of

All Share Index in Nigeria. The overall goodness of fit of 99.11 percent implies that the changes in fiscal policy indicators in aggregate accounted for 99.11% of the variation in consumption expenditure. Therefore, it can be concluded that fiscal and monetary policy tools have an impact on capital market performance.

Discussion

Evidence from the result indicates that the monetary policy rate has a negative but significant impact on All Share Index. This implies that a higher interest rate in the country reduces funds made available by banks to investors to carry on with capital market investment. It further suggests that the capital market becomes attractive when the interest rate is low. It also suggests that high interest rates deter investment at the stock market when CBN decides to adjust the rates in the now; however, the effect may be felt at the market after a particular period of time if such policy persists. These support the findings of Ologunde, Elumilade and Asaolu (2006), Ogbulu and Uruakpa (2011) Owolabi and Adegbite (2014) Hu, Han and Zhang (2018), Udi and Ohwofasa (2018), Chen (2021), Kicia and Kordela (2023) which found a negative relationship between monetary policy rate and performance of capital markets in countries such as China, Poland, Nigeria, and Iran. It however, contradicts the findings of Nwakoby and Bernard (2016), Jonathan and Oghenebrume (2017), and Kolapo, Oke and Olaniyan (2018), which found a negative relationship between monetary policy rate and performance of capital markets in countries such as China Nigeria, and Iran.

Treasury bills outstanding have a decreasing effect on capital market performance. This is similar to Okpara (2010) and Nwakoby and Bernard (2016) which concluded that Treasury bill operations of the central bank reduce investment at the capital market since they mop up money in circulation into the coffers of the federal government. Also, it serves as an attractive venture for short-term investors who see treasury bills as government-backed instruments with less risks and high returns within a short period, thereby reducing investment in the capital market.

Findings on the link between fiscal policy instruments show that government expenditure has a positive and significant impact on All share index. This suggests that when the government allocates funds for projects and infrastructural developments, businesses grow and the capital market expands. In addition, incremental spending will lead to an increase in money in the hands of the private sector, which enables them to invest in the capital market. In another way round, when the government spending or borrows from the economy it reduces investment at the capital market. The findings support the studies of Anghelache, Jakova and Oanea (2016), Hu, Han and Zhang (2018), Eneje, Obidike, Ani and Jacpuno (2019) which all found that fiscal policy had significant and positive long-term relationship with stock market growth in Nigeria, EU and the US.

Government revenue was found to exert a negative influence on All Share Index. This is not surprising since a large chunk of the government's funds come from taxation. Multiple taxation reduces the ability of companies to make more profits, which

discourages investment and reduces the ability to expand. It is no wonder Orekoya, Afolabi and Akintunde (2018) concluded that contractionary policies have larger effects on the stock market performance than expansionary policies. In addition, Akinkuotu (2017), Ehikioya, Uduh and Edeme (2018), and Orekoya, Afolabi and Akintunde (2018) found that fiscal policy is more effective in stimulating the growth performance of Nigerian SMEs compared to monetary policy. Chatziantoniou, Duffy and Filis (2015) and Hu, Han and Zhang (2018) also concluded that monetary and fiscal policies both have a significant and direct positive effect on stock market performance.

Summary and Conclusion

This study assessed stabilization policy and capital market performance in Nigeria. This study was motivated by the increased contentions among development economists and policy makers as to the relationship or nexus between fiscal policy, monetary policy and capital market development. Empirical findings made in this study have shown that government expenditure has an incremental effect on capital market performance while its revenue tools have a reducing effect on the same market. Moreover, both monetary policy rate and Treasury bill operations were found to have a contractionary effect on the market in the long run. This study therefore concludes that fiscal policy has a more stabilizing effect on the capital market performance than monetary policy.

Recommendations

1. The government should increase its spending, especially on infrastructural development, as this will help businesses to expand and lead to more investments in the capital market.

2. The government should review its revenue policy and ensure that its multiple taxation policies are addressed so as not to have a negative impact on the companies quoted at the capital market thereby reducing development of the market.

3. The present rate of MPR is too high compared to other global economies. It is high time CBN addressed the issue of its high MPR and sought other ways of targeting inflation, as the present MPR is too costly for business owners to be able to borrow and make meaningful investments in the capital market.

4. Moreover, efforts should be made to ensure that CBN treasury bill operations do not mitigate against the performance of the capital market.

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