IMPACT OF MONETARY POLICY TARGETS ON CAPITAL MARKET GROWTH IN NIGERIA FROM 1999 – 2024

MOYOTOLE DANIEL EZUEM[1]
Federal University Wukari, Taraba State
ezuem@fuwukari.edu.ng

TERHIDE EMMANUEL ANDYAR[2]
Federal University Wukari, Taraba State
andyaremma740@gmail.com

Abstract

The study examined the impact of monetary policy targets on capital market growth in Nigeria from 1999 to 2024. This study sought to achieve the following objectives: to examine the impact of cash reserve ratio on Nigerian capital market turnover ratio, to examine the impact of inflation rate on Nigerian capital market turnover ratio, and to examine the impact of money supply on Nigerian capital market turnover ratio for a period of 25 years spanning from 1999 to 2024. The study adopted the ex post facto research design to consider the trends in the time series data set. Annual data were obtained from CBN statistical bulletin and world bank database for the period of the study. The Autoregressive Distributed Lag Model (ARDL) was used to analyze the data. The findings of the study reveal that, cash reserve ratio and inflation rate have an insignificant impact on Nigerian capital market turnover ratio, also, money supply has a positive and significant impact on Nigerian capital market turnover ratio. From the findings, the study concludes that cash reserve ratio and inflation rate have an insignificant relationship with the Nigerian capital market turnover ratio while money supply

[1]Department of Banking and Finance, Faculty of Management Sciences Federal University Wukari, Taraba State
ezuem@fuwukari.edu.ng; moyotoledanielezuem@gmail.com
08131002143, 08053262803
[2]Department of Banking and Finance, Faculty of Management Sciences
Federal University Wukari, Taraba State
andyaremma740@gmail.com
08107795804

exhibits a positive and significant impact on Nigerian capital turnover ratio. It was therefore recommended that, since the relationship between cash reserve ratio and Nigerian capital market turnover ratio appears to be insignificant, Policymakers should consider revisiting the cash reserve ratio to ensure it is conducive to encouraging investment in the capital market. A more stable or lower rate may stimulate activity and investor confidence. Also, Given the negative and insignificant relationship between the inflation rate and capital market turnover ratio, it is crucial for the Central Bank to implement effective measures to control inflation. Maintaining a stable inflation environment could enhance investor confidence and participation in the capital market. Finally, Policymakers should develop strategies to ensure that the growth of money supply is directed towards capital market investments. This could include incentives for investment in the capital market or improving access to capital for businesses, fostering a more vibrant market environment.

Keywords: monetary policy rate, inflation rate, money supply, capital market turnover ratio

JEL Classification: E52, E58, G18, G21, F31

1. INTRODUCTION

Capital market is regarded as an integral component of most economies since it signals redistribution and reallocation of assets among different unit within an economy (Babangida & Khan, 2021). The performance of this market is tied in the overall performance of an economy; particularly the growth in the Nigerian economy in the last two decades can be associated with impact of stock market on the overall economy (Bertram, 2018; Ifionu & Omojefe, 2013). The stock market is divided into primary and secondary market. The primary market is a market for new securities. On the other hand, the secondary market is a market where existing securities are being traded. The historical growth of the Nigeria capital market can be traced back to the colonial period when the first stock exchange was established in the early 19th century. However, it wasn't until the 19960s and 1970s that the market began to take shape as an independent nation. The capital market as it is today, evolved in different phases overtime. In the early beginning (19th century), the first stock market was established in 1897 in Lagos, under the British colonial administration. This initial exchange focus primarily on trading shares in British companies operating in Nigeria (Ikechukwu & Orumhua, 2023). However, following the Nigeria's independence in 1960, the Lagos stock exchange (LSE) was formally established in 1961 as a platform for trading shares in Nigerian companies. The LSE played a crucial role in the growth of the capital market, facilitating the raising of capital for businesses and providing a platform for investors to buy shares (Alugbuo, 2020). However, since the beginning of the 21st century, the Nigerian capital market has continued to grow and evolve. The market has seen the introduction of new products such as exchange traded funds (ETFs) and Real Estate Investment Trusts (REITs), as well as the development of the market segments, such as the Alternative Securities Market (ASeM) for small and medium-sized enterprises.

The gradual growth and development of the Nigerian capital market from the 19th to 21st century can be attributed to a range of factors. For instance, the Nigerian government has implemented favorable policies and regulations to promote

the growth of the capital market, the securities and exchange commission (SEC) have been charged with the crucial role of overseeing the market, ensuring transparency, and maintaining investors' confidence. Furthermore, the Nigerian government has further liberalized the capital market thereby, allowing foreign investors to participate more freely. This has increased the pool of investible funds and contributed to the growth of the market. Also, efforts to promote financial inclusion, such as the introduction of mobile banking and other digital banking services, have expanded the number of participants in the capital market.

Monetary policy, however, refers to the actions of the Central Bank to regulate the monetary supply which could be through discretional monetary policy instruments such as open market operation (OMO), discount rate, reserve requirements moral suasion, direct control of banking system credit, and direct regulation of interest rate (Alugbuo & Chika, 2020). Monetary policy comprises the formulation and execution of policies by the Central Bank to achieve desired objectives or set of objectives; the policies and decisions are aimed at guiding bank lending rates to the levels where credit demand and money growth are at a level consistent with the aggregate supply elasticity (Alugbuo & Chika, 2020). This study, therefore, sought to examine the effect of capital reserve ratio, inflation rate, and money supply on the growth of the Nigerian capital market. The choice of the selected variables in this study is based on their relevance and interconnectedness in the context of monetary policy and capital market growth in Nigeria. Monetary policy rate is selected because it is a crucial tool used by the central bank to influence monetary policy as it directly affects borrowing cost of capital in the economy. By manipulating the monetary policy rate, the central bank of Nigeria stimulates or slowdown the economic growth, control inflation and stabilize financial markets. Money supply on the other is considered relevant for this study because it is a critical factor in determining the level of liquidity in the economy, and can influence interest rate, inflation rate and the overall economic growth. Changes in the money supply can have a direct impact on the capital market, as they affect the supply of credit and the demand for investment. Finally, the inflation rate is chosen as a variable for this study because it is an essential economic indicator that influences investment decisions, interest rate, and exchange rate. High inflation can erode the value of investment and discourage investments, while low and stable inflation can create a favorable environment for investment growth. By examining the relationship between these variables and capital market growth, the study provides insights into the effectiveness of monetary policy in promoting a healthy and sustainable capital market in Nigeria.

1.1. STATEMENT OF PROBLEM

Emerging economies like Nigeria have grown rapidly over the last two decades, driven principally by the expansion of international trade and foreign direct investment. The capital market plays a significant role in mobilizing capital to the various industries that desire and are quoted at any tier in the market. The recognition of this role in driving the growth of industries has necessitated the government to

embark on reform policies to make the market more effective and efficient as a vehicle for investment and economic growth among which includes deregulation policies. Despite these laudable reform policies, little has been achieved as the level of industrial growth in Nigeria is still below expectation. This raises the question of whether the market has witnessed improved performance because of these policies.

Furthermore, monetary policy is a forward-looking economic reform tool especially applied to expand or contract money supply or liquidity in the economy with the aim of achieving price stability. Whether monetary policy influences the stock market performance has become an issue of continuous debate and controversy in financial literature. Though monetary policies are implemented through financial institutions of which the capital market is one, the high liquidity generated daily at the stock exchange market has poised the central bank and monetary policy managers to believe that the capital market is an appropriate avenue for implementation to bring stability in the economy. Whether this belief is correct has also become a major issue this study intends to investigate. Results from previous studies on monetary policy outcome and capital market growth in Nigeria are mixed such as Echekoba *et al* (2017) and Afroze (2013) found that Nigerian capital market performance is not significantly affected by monetary policy. While Nwokoye and Otu (2018), Okpara (2010) found a positive and significant relationship between monetary policy and capital market growth in Nigeria. Despite the findings of previous researchers, the question of whether monetary policy affected the growth of the capital market is of serious concern both to the academics as well as the practitioners all over the world. There have been controversies among scholars, researchers, and finance professionals with regards to what hinders the rapid growth of the capital market, this has generated the question (why is the capital market still growing at a low rate?) that led to efforts to find out if monetary policy outcomes affect capital market growth in Nigeria. Based on the above-identified problems, this study will therefore bring to fore the impact of monetary policy on the Nigerian capital market and the appropriate relationship between the three (3) variables under study (cash reserve ratio, broad money supply and inflation rate) for a period of twenty-five years, spanning from 1999-2024.

1.2. OBJECTIVES OF THE STUDY

The primary objective of the study is to determine the effect of monetary policy outcome on capital market growth in Nigeria. The specific objectives are to:

(i) Examine the effect of cash reserve ratio (CRR) on the Nigerian capital market turnover ratio,

(ii) Evaluate the effect of inflation rate (INFR) on the Nigerian capital market turnover ratio,

(iii) Examine the effect of money supply (MS) on the Nigerian capital market turnover ratio.

2. LITERATURE REVIEW

2.1. CONCEPTUAL REVIEW

2.1.1. MONETARY POLICY

Monetary policy refers to the combination of measures designed to regulate the value, supply, and cost of Money in an economy. It can be described as the art of controlling the direction and movement of credit facilities in pursuance of stable price and economic growth in an economy (Alugbuo & Chika, 2020). The Central Bank of Nigeria (CBN) defined monetary policy as mixture of processes intended to regulate the value and supply for money as well as the interest rate for financial transaction, to achieve the economic objectives of the nation (Central Bank of Nigeria, 2018). According to Anaele & Umeora (2019) monetary policy is a deliberate action of the Central Bank of a country that affects quantity, cost and availability of money supply and credit with the aim of realizing targeted economic goals as well as ensuring stability in macroeconomic environment. This can be done by changing the level of money supply and interest rates to control inflation in the economy. In Nigeria, the Central Bank of Nigeria (CBN) is the organ that has the responsibility for conducting monetary policy.

Oluwapelumi (2021) maintained that the goal of the Central Bank of Nigeria (CBN) in implementing monetary policy is to control inflation rate. Oluwapelumi (2021) further added that the monetary authorities directly manipulate items of the balance sheet of deposit money banks using the direct monetary policy mechanisms. Monetary policy establishes the foundations for achieving specific macroeconomic goals and affects the rate of growth of the money supply, the level of interest rate, security prices, credit availability and liquidity (Temitope & Magaji, 2023; Gimba et al., 2020).

2.1.2. CAPITAL MARKET

The stock market, as perceived by Chukwuemeka (2018) is a network of specialized financial institutions, a series of mechanisms, processes, and infrastructure that in various ways, facilitate the bringing together of suppliers and users of medium to long term capital for investment in socio-economic developmental projects. The stock market is divided into the primary and the secondary market. The primary market or the new issues market provides the avenue through which government and corporate bodies raise fresh funds through the issuance of securities which are subscribed to the public or a selected group of investors. It is a platform where companies or the government can raise money for investment or where already quoted companies can raise fresh funds for expansion. Both the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE) are involved in primary market activities. The secondary market provides an avenue for sale and purchase of existing securities. According to Pandey (2006), it is a type of market where existing securities of a market are traded on a daily and continuous basis. It is the market for existing securities. This consists of exchanges and over-the counter markets where securities are bought and sold after

their issuance in the primary market. The stock market is treated as part of securities market where trading in stock is organized and carried out (Akintola &Aroyewun, 2022). It is the place where securities (shares) of listed companies are traded and where investments, both foreign and domestic, are made (Anselme *et al*, 2019). It is an organized market where brokers meet to buy and sell stocks and shares at an agreed price for long-term investments (Akanbi, 2021).

Thus, stock markets (or equity markets) like many other financial intermediaries, facilitate transfer of funds from surplus spenders (savers) to deficit spenders (investors). It mobilizes and channels idle funds and resources in the economy to the most productive use, leading to efficient allocation of capital. In the past, debt was the preferable source of finance for industrial enterprises; however, today, equity and quasi-equities are attractive instruments of finance. A stable and well-regulated equity market is necessary to enhance activities among financial elements. If equity market is efficient, firms can easily raise funds by issuing securities (Chukwuemeka, 2018). An efficient and well-functioning equity market may facilitate the economic growth and development process in an economy through the following means: augmentation of household saving, efficient allocation of investment resources, and alluring foreign portfolio investment.

2.1.3 MONETARY POLICY AND CAPITAL MARKET GROWTH.

The relationship between monetary policy and capital market performance has been a subject of interest among economists and policymakers over a long period of time. No doubt, a linkage exists between capital market development and growth of the economy, and stock prices are believed to be determined by some fundamental macroeconomic variables such as interest rate, inflation, money supply and exchange rate (Ikechukwu & Orumhua, 2023). According to Aako & Agbolade (2022) the Upward review of the monetary policy rate will automatically/directly shift prime lending rate upward thus investors have no other option than to revalue their stocks. In other words, the value of their wealth, given by the sum of the discounted future cash flows (and/or dividends), is affected by an easing or tightening of monetary policy through either the discount rate or expected earnings or both. Indirectly, monetary policy exerts influence on capital market performance through its influence on the determinants of dividends and the stock returns premium by influencing the degree of uncertainty faced by agents. when facing a liquidity trap, expansionary monetary policy will, instead of fostering steady growth, tend to fuel financial markets (Echekoba *et al*, 2017).

Contractionary monetary policy is associated with lower stock prices given that higher discount rate for the expected stream of cash flow and/or lower future economic activity, while an expansionary monetary policy is commonly viewed as good news as these periods are usually associated with low interest rate, increased economic activity and higher earnings for the firms in the economy (Omodero *et al*, 2021). Depreciation in a country's currency increases the competitiveness of firms that are in the export business, as such, the price of their stocks will follow an upward

trend, and the expectation is that foreign investors are attracted to the local stock market; devaluation increases exports for local firms, while an appreciation reduces both export competitiveness and performance of stock prices. Central Banks automatically accommodate productivity gains that lift stock prices, while offsetting purely speculative increases or decreases in stock values whose primary effects are through aggregate demand. monetary policy of changing monetary aggregates has fewer impacts in bear markets than bull markets, but changes in monetary policy rate can be more influential in bear markets; increases in monetary aggregates or reductions in the monetary policy rate have positive contemporary effects on stocks only during the periods in which they are used as the monetary policy target by the Central Bank (Nwakoby & Bernard, 2016).

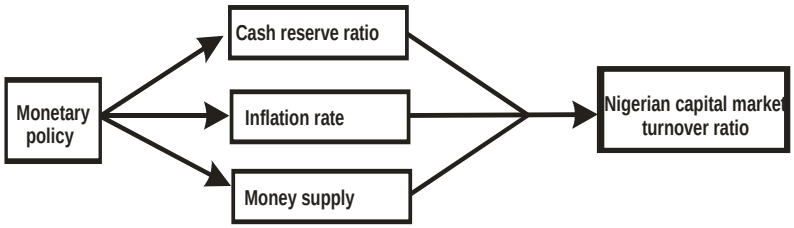

Figure 1.1*: A schematic diagram showing how independent variables influence the dependent variable.*

2.2 THEORETICAL REVIEW

2.2.1 DISCOUNTED CASH FLOW MODEL (DCF)

The discounted cash flow model posits that stock prices are equal to the present value of expected future net cash flows. Thus, monetary policy should then play a significant role in determining equity returns either by altering the discount rate used by market participants or by influencing market participants' expectations of future economic activity. These channels of influences are interlinked since more restrictive monetary policy usually implies both higher discount rates and lower future cash flow. Monetary policies that reduce the monetary aggregates (contractionary monetary policy) should then be associated with lower stock prices because of the resultant higher discount rate for the expected stream of cash flows and/or lower future economic activity. On the other hand, an expansionary monetary policy should usually be seen as a positive business period since it is associated with low interest rates, increases in economic activity and higher earnings for the firms in the economy. As a result, stock market participants give high interest in understanding business trends from the standpoint of monetary authority as inferred by changes in indicators of central bank policy. Finance analysts have relied on the reactions to monetary policy shifts in interpreting asset price movements (Salisu & Haladu, 2023).

This theory is based on the following assumptions:

1. All cash flows are discounted at a single rate: The DCF model assumes that all future cash flows can be discounted back to their present value using a single

discount rate. This rate is typically based on the required rate of return for an investment or the cost of capital for a company. The discount rate considers the time value of money, risk, and the investor's preferred level of return.

2. Cash flows are known and predictable: The DCF model assumes that the cash flows generated by an investment or asset can be estimated to be a reasonable degree of accuracy. This requires historical data, industry analysis, and projections of future performance.

3. Growth and decline rates are constant: The DCF model assumes that the growth rate of cash flows will remain constant over time, and that there will be a point at which the cash flows will begin to decline. This decline is typically modeled after using a constant decline rate or terminal growth rate. The model uses these rates to estimate the point at which the cash flows will level off or decline, and to calculate the present value of these future cash flows.

This study is hinged on the discounted cash flow model because it is a valuable tool for assessing the impact of monetary policy target on capital market growth due to its ability to value future cash flows, incorporate risk and uncertainty, perform sensitivity analysis which is useful in understanding how changes in key variables, such as interest rate can impact the valuation of investments, also provide comparability of various investment options based on their potential returns and risks, and consider a long-term time horizon.

2.3 EMPIRICAL REVIEW

Ikechukwu & Orumhua (2023) investigated the impact of monetary policy on stock market development in Nigeria. The scope of this study spanned between 1985 to 2020. Variables adopted are the total annual market capitalization of the Nigeria stock exchange market, the inflation rate, interest rate, exchange rate and money supplied represented with the broad money growth rate. The Auto Regressive Distributed Lag –ARDL was employed to analyze the data collected. The findings show that exchange rate and money supply have a positive relationship with the total annual market capitalization as a percentage of the GDP and are significant while the inflation rate and interest rate were both negatively related with the total annual market capitalization of the GDP but only interest rate was significant.

Aako & Agbolade (2022) investigated the effect of monetary policy on Nigerian stock market's performance from 2006 to 2020. The Generalized Additive Model for Location, Scale, and Shape (GAMLSS) was adopted for the study. Findings show that whereas other variables have negative associations with the All-Share Index, the money supply has a positive link with it. The Nigerian Stock Market All-Share Index is significantly impacted by each of the explanatory variables.

Omodero *et al* (2021) examined the stock market reaction to monetary policy modifications in an emerging market in Nigeria. The multiple regression results provide evidence that the money supply has a significant favorable influence on the all-share index. In contrast, the interest rate has an immaterial harmful effect on the stock market output.

Babangida & Khan (2021) examined the effect of monetary policy decisions on the performance of the Nigerian Stock Exchange market from. The Smooth Transition Autoregressive (STAR) model was adopted. The result of the study shows that Monetary policy rate, money supply, lagged monetary policy rate and lagged treasury bill rate are found to have significant positive effects on the stock exchange market in the lower regime while current treasury bill rate shows a negative effect.

Alugbuo & Chika (2020) examined the effect of monetary policy on stock market performance in Nigeria. The Auto Regressive Distributed Lag –ARDL was adopted to analyze the data collected. Findings proved that Lending interest rate had a positive relationship with all share index and was statistically significant in the current year while Money supply had a negative relationship with ASI in the current year and in the previous lags.

Umezurike *et al* (2019) carries out a study to determine whether stock market return in Nigerian Stock Exchange (NSE) is affected by monetary policy or not. the Autoregressive Distribute Lag (ARDL) model was employed. Result from the study shows that the stock market return in Nigeria is not affected by adjustments in monetary policy instruments of the Central Bank of Nigeria (CBN).

3. METHODOLOGY

3.1 RESEARCH DESIGN

This study adopted ex-post facto research design which uses already existing data (Obiageli, 2021).

3.2 MODEL SPECIFICATION

The model for the study is patterned after Ikechukwu & Orumhua (2023) in their study titled *"Impact of monetary policy measures on capital market development"*.

The functional model is specified as follows:

$NCMTR = f(CRR, INFR, MS,)$ …… *(1)*

The algebraic form of the model is represented as:

$NCMTR = \beta_0 + \beta_1 CRR + \beta_2 INFR + \beta_3 MS + \mu$…… *(2)*

ARDL model

$$NCMTR_t = \alpha + \sum_{i=1}^{p} \beta_i NCMTR_{t-1} + \sum_{j=0}^{q} \lambda_j CRR_{t-j} + \sum_{k=0}^{r} \delta_k INFR_{t-k} + \sum_{l=0}^{s} \theta_l MS_{t-l} + \mu \quad \text{.....(3)}$$

Where:

NCMTR = Nigeria capital market turnover ratio

CRR = Cash Reserve Ratio

INFR = Inflation Rate

MS= Money Supply

μ = stochastic error term

α = is the constant term

$\beta_i, \Lambda_j, \delta_k, \theta_l$= the coefficients to be estimated

3.3 METHOD OF DATA ANALYSIS

The data collected from CBN statistical bulletin and world bank development indicators for the period 1999 to 2024 on the impact of monetary policy targets on capital market growth in Nigeria was analyzed using E-views 12. Test such as descriptive statistics were conducted to determine the mean and standard deviation; correlation analysis was performed to check their relationship; and regression analysis will be performed.

4. DATA ANALYSIS AND DISCUSSION OF FINDINGS

4.1. DESCRIPTIVE STATISTICS

Table 4.1*: Descriptive Statistics*

	Mean	Std. Deviation	N
NCMTR	7.73	7.0778	24
CRR	11.35	13.08	24
INFR	12.73	5.8186	24
MS	22.752	17.002	24

Source: Author's Compilation from E-views 12 output, 2025.

The results in Table 4.1 above show the rudimentary descriptive statistics with emphasis on mean, and standard deviation. NCMTR, CRR, INFR, and MS have average values of 7.73, 11.35, 12.73, and 22.752, respectively. The standard deviation shows how far the values are from the meaning. Therefore, the deviation of NCMTR from the mean is 7.0778; CRR from the mean is 13.08; INFR from the mean is 5.8186, and MS from the mean is 17.002.

4.2. CORRELATION TEST

Table 4.2 depicts the relationship between the independent variables and the dependent variable.

Table 4.2: *Correlation Table*

Variables	**NCMTR**	**CRR**	**INFR**	**MS**
NCMTR	1.0000			
CRR	-0.3535	1.0000		
INFR	-0.2843	0.5777	1.0000	
MS	0.2440	0.0694	0.3558	1.0000

Source: Author's Computation using E-views 12 output (2025).

Table 4.2 above shows the correlation results, from the result, cash reserve ratio and inflation rate exhibit a weak negative correlation with the Nigerian capital market turnover ratio. Also, money supply has a weak positive relationship with the Nigerian capital market turnover ratio. Finally, there exists a weak positive correlation between all the independent variables under study.

4.3. REGRESSION ANALYSIS

Table 4.3: *Autoregressive Distributed Lag Short-run Estimates*

Variables	**Coefficients**	**Std error**	**T-statistic**	**P-values**
NCMTR	0.4951	0.1596	3.1021	0.0065
CRR	0.0747	0.1092	0.6838	0.50
INFR	-0.4376	0.2274	-1.9247	0.1910
MS	0.2330	0.0767	1.3971	0.0044
R-Squared	0.609			
Adjusted R-squared	0.517			
F-statistic	6.623			
Prob(F-statistic)	0.0021			
Durbin-Watson	2.111			

Source: Author's Computation using E-views 12 output (2025).

Table 4.3 presents the ARDL short-run regression result. The result revealed that money supply has a positive and significant relationship with the Nigerian capital market turnover ratio, this is because money supply has a positive coefficient value of 0.2325 and a probability value of 0.0044 which is below 0.05 (5%) level of significance. Also, monetary policy rate and inflation rate has a negative and not significant relationship with the Nigerian capital market turnover ratio, this is because monetary policy rate and inflation rate has a negative coefficient value of -0.7027 and -0.4099 respectively and probability values of 0.1217 and 0.1910 which are all above 0.05 (5%) level of significance.

From the results in table 4.3 above, the cumulative R-squared (R^2) of 0.65 which is the multiple coefficients of determination gave the proportion of the total variation in the dependent variable as explained by the independent variable jointly. Hence it signified that monetary policy rate, inflation rate, and money supply cause 65% of the total variation in Nigerian capital market turnover ratio. While 35% variation in the Nigerian capital market turnover ratio is caused by other factors not captured by the model. Also, the adjusted R-square present a value of 0.54. This implies that approximately 54% of the variability in the dependent variable can be explained by the independent variables in the regression model, after adjusting for

several predictors and sample size. The F-Statistics recorded a value of 5.6238 while the P-value of the F-statistics (0.0041) is statistically significant at (5%) significance level, this implies that the model for this is stable and suitable in predicting the dependent variable-Nigerian capital market turnover ratio. Finally, the Durbin Watson statistic present a value of 1.8297, this implies that there is no significant autocorrelation present in the data as the value is approximately 2.

4.4. TEST HYPOTHESIS

Hypothesis One

$H0_1$: Cash reserve ratio has no significant effect on Nigerian capital market turnover ratio.

HA_1: Cash reserve ratio has significant effect on Nigerian capital market turnover ratio.

From the regression table above, it is observed that cash reserve ratio has a probability value of 0.5033 which is above the threshold of 0.05. This implies that null hypothesis cannot be rejected, and the alternative hypothesis is rejected. Therefore, the study concluded that cash reserve ratio does not have a statistically significant impact on Nigerian capital market turnover ratio.

Hypothesis Two

$H0_2$: Inflation rate has no significant effect on Nigerian capital market turnover ratio.

HA_2: Inflation rate has significant effect on Nigerian capital market turnover ratio.

The regression table above revealed that the inflation rate has the probability value of 0.0712 which is above the threshold of 0.05. This implies that null hypothesis two is accepted, while alternate hypothesis two is rejected. Therefore, the study concluded that inflation rate does not significantly impact on Nigerian capital market turnover ratio in the short run.

Hypothesis Three

$H0_3$: Money supply has no significant effect on Nigerian capital market turnover ratio.

HA_3: Money supply has significant effect on Nigerian capital market turnover ratio.

From the regression table above, it is observed that money supply has the probability value of 0.0075 which is below the threshold of 0.05. This implies that null hypothesis three is rejected while alternate hypothesis three is accepted. Therefore, the study concluded that money supply has a statistically significant impact on Nigerian capital market turnover ratio in the short run.

4.5. DISCUSSION OF FINDINGS

This study tested three hypotheses to find out if monetary policy targets significantly influence Nigerian capital market turnover ratio. **Hypothesis one**,

which states that cash reserve ratio has no significant impact on Nigerian capital market turnover ratio, is accepted based on the evidences of this study. In the same vein, **hypothesis two**, which states that inflation rate has no significant effect on Nigerian capital market turnover ratio is also accepted. Finally, **hypothesis three** which states that money supply has no significant effect on Nigerian capital market turnover ratio is rejected. The acceptance and rejection of these hypotheses is based on evidences from findings. This implies that cash reserve ratio, and inflation rate has no significant impact on Nigerian capital market turnover ratio. The insignificant relationship between inflation rate, monetary policy rate, and Nigerian capital market turnover ratio is because the structure and liquidity of the Nigerian capital market may limit responsiveness to monetary policy changes. Also, suggesting that fluctuations in these factors do not influence trading activity in the Nigerian capital market.

On the other hand, money supply has a significant impact on Nigerian capital market turnover ratio. This means that increases in money supply can stimulate trading activity, potentially reflecting greater liquidity and investor confidence in the market. Evidence from findings also shows that monetary policy rate and inflation rate contributes negatively to the Nigerian capital market turnover ratio while money supply contributed positively to the Nigerian capital market turnover ratio. This is because high borrowing cost and inflation uncertainty discourages investment in the Nigerian capital market. In contrast, increased money supply enhances market liquidity, encouraging trading and higher turnover in the capital market.

This study agrees with the works of Ikechukwu & Orumhua (2023), and Alugbuo & Chika (2020) that investigated the effect of monetary policy on the capital market performance in Nigeria and found the existence of an insignificant relationship. They used monetary policy rate, inflation rate, exchange rate, interest rate, and money supply to measure monetary policy.

On the contrary, Adaramola *et al.* (2023), and Chukwuemeka (2018) findings disagreed with the findings of this study. However, Adaramola *et al.* (2023) used prime lending rate, deposit rate and money supply to ascertain their impact on economic growth instead of capital market growth that this study focused on. Perhaps this accounted for the discrepancies in findings. Also, Chukwuemeka (2018) found an insignificant relationship by employing ordinary least square technique to evaluate the relationship between monetary policy and capital market performance in Nigeria. This also may be responsible for the differences in the outcome.

The findings of this study imply that enhancing liquidity through money supply can stimulate trading and investment in the capital market, while the existing monetary policy framework may not be effectively aligned with capital market growth. Policymakers might need to focus on increasing money supply to foster a more vibrant capital market, rather than solely relying on interest rate adjustments.

5. CONCLUSIONS

In conclusion, this study reveals critical insights into the dynamics between monetary policy and the Nigerian capital market turnover ratio. The study findings indicate that both the cash reserve ratio and inflation rate exhibit negative but not significant relationships with market turnover in the short run, suggesting that fluctuations in these factors do not influence trading activity in the Nigerian capital market. This could imply a level of insulation of the market from traditional monetary policy tools, highlighting the need for more targeted strategies to enhance market responsiveness to these economic indicators.

Conversely, the study identifies a significant relationship between money supply and capital market turnover in the short run. This suggests that increases in the money supply can stimulate trading activity, potentially reflecting greater liquidity and investor confidence in the market. Policymakers should consider this relationship when formulating monetary policies, as an adequate money supply may be crucial for promoting a vibrant capital market.

6. RECOMMENDATIONS

Based on the findings and conclusion from the study, the following recommendations are made:

i. Since the relationship between cash reserve ratio and Nigerian capital market turnover ratio appears to be insignificant, Policymakers should consider revisiting the cash reserve ratio to ensure it is conducive to encouraging investment in the capital market. A more stable or lower ratio may stimulate activity and investor confidence.

ii. Given the negative and insignificant relationship between the inflation rate and capital market turnover, it is crucial for the Central Bank to implement effective measures to control inflation. Maintaining a stable inflation environment could enhance investor confidence and participation in the capital market.

iii. Policymakers should develop strategies to ensure that the growth of money supply is directed towards capital market investments. This could include incentives for investment in the capital market or improving access to capital for businesses, fostering a more vibrant market environment.

REFERENCES

Aako, O. L., & Agbolade, O. A. (2022).Use of a Generalized Gamma Additive Model to Determine the Effect of Monetary Policy on the Nigerian Stock Market.*International Journal of Mathematical Analysis and Modelling*, 5(4), 50 – 57.

Adaramola, A. O., Kayode, P. A., Omotayo, V. A., &Adewole, J. A. (2023). Monetary Policy and Stock Price Behavious of Banks in Nigeria: A Panel Dynamic Co-Integration Approach. *Practitioner Research*, 3(3), 35-64.

Afroze, R. (2013). Impact of Monetary Policy of Bangladesh Bank on the Performance of Stock Market in Bangladesh.*ASA University Review*, 7(1), 1-11.

Akanbi, A. (2021). Effect of Monetary Policy on Stock Market Performance in Nigeria.*Journal of Global Economics and Business*, 2(5), 101-115.

Akani, H. W. (2016). Empirical Analysis of Monetary Policy on Capital Market Activities: Evidence from Nigerian Economy. *Journal of Accounting and Financial Management*, 2(3), 82-111.

Akintola, A. F., &Aroyewun, B. O. (2022). Monetary Policy and Stock Market Return in Nigeria. *International Journal of Recent Innovations in Academic Research*, 6(4), 23-27.

Alalade, Y. S. A., Oseni, E. &Adekunle, O. A. (2020).Monetary Policy and Financial Performance of Deposit Money Banks in Nigeria. *Asian Social Science*, *16*(11), 123-135.

Alugbuo, J. C., & Chika, E. J. (2020). Monetary Policy and Stock Market Performance: Evidence from Nigeria Stock Exchange Market. *International Journal of Research and Innovation in Social Science (IJRISS)*, 4(6), 556-568.

Anaele, S. C., & Umeora, C. E. (2019). Monetary Policy and the Performance of the Nigerian Capital Market (1986 – 2017). *International Journal of Research in Engineering, Science and Management*, 2(7), 59-72.

Anselme, B. S., Emenike, K. O., &Kirabo, J. B. (2019).Monetary Policy and Stock Market Returns in Uganda.*Journal of Economics & Business*, 3(1), 57 –68.

Babangida, J. S., & Khan, A. L. (2021). Effect of Monetary Policy on the Nigerian Stock Market: A Smooth Transition Autoregressive Approach. *CBN Journal of Applied Statistics*, 12(1), 1-21.

Bertram, O. A. (2018). Economic Growth and Capital Market Development in Nigeria; An Appraisal. *Journal of Business Management and Economic Research*, 2, 27–38.

Central Bank of Nigeria. (2020). The Conduct of Monetary Policy. Retrieved from https://www.cbn.gov.ng/MonetaryPolicy/Conduct.asp.

Chukwuemeka, A. (2018). Monetary Policy and the Performance of Nigeria Capital Market: A Time Variant Analysis. *European Journal of Accounting, Auditing and Finance Research*, 6(6), 22-43.

Echekoba, F., Ananwude, A. &Lateef, O. (2017).Effect of Monetary Policy on the Performance of the Nigerian Capital Market.Stylized Facts from ARDL Approach.*Advances in Research*, 14(6), 1-15.

Emefiele, G. (2020). Central Bank of Nigeria Communiqué No.128 of the Monetary Policy Committee Meeting Held on Thursday 23rdAnd Friday 24th January, 2020.

Gimba, J. T., Vincent, H. S., &Oyedokun, G. E. (2020).Effect of Monetary Policy on the Performance of Listed Deposit Money Banks in Nigeria.*The Annals of the University of Oradea. Economic Sciences*, 1, 482-503.

Ifionu, E. P., &Omojefe, G. (2013). The Capital Market and Performance of the Nigerian economy: A Time Series Analysis.West*African Journal of Industrial and Academic Research*, 8(4), 192–207.

Ikechukwu, O. J., & Orumhua, E. S. (2023). Impact of Policy Measure on Stock Market Development in Nigeria.*International Journal of Intellectual Discourse (IJID),* (6)3, 60-73.

Jhingan, M. L. (2016). Money, banking, International trade and public finance.*Vrinda Publications (P), Ltd 8ed*

Kasie, E. Z., & Josephine, E.(2021). Monetary Policy Instruments and Performance of Nigeria Capital Market.*International Journal of Research and Innovation in Social Science*, 5(9), 720-726.

Musa, A., Uche, U. &Nneka, N. M. (2021). Impact of Monetary Policy Targets on Capital Market Development in Nigeria. *International Journal of Innovative Research in Education, Technology & Social Strategies*, 8(1), 85-95.

Nwakoby, C., & Bernard, A. (2016). Effect of Monetary Policy on Nigerian Stock Market Performance. *International Journal of scientific research and management (IJSRM)*, 4(9), 4530-4442.

Nwokoye, H., & Otu, A. (2018). Effect of Monetary Policy on the Performance of the Nigerian Capital Market. *Advances in Research,* 14(6), 1-15.

Okpara, J. I (2010). Impact of Policy Measure on Stock Market Development in Nigeria. *International Journal of Intellectual Discourse (IJID)*, 6(3), 60-73.

Oluwapelumi, O. S. (2021). The Impact of Monetary Policy on Assets Management of Deposit Money Banks in Nigeria. *Journal of Finance and Accounting*, 9(3), 60-66.

Omodero, C. O., Adetula, D. T., & Adeyemo, K. (2021). Stock Market Reaction to Monetary Policy Modifications: Evidence from an Emergent Market. *Academic Journal of Interdisciplinary Studies*, 10(3), 59-66.

Temitope, Y. A., & Magaji, S. (2023). Influence of Monetary Policy on International Trade: Cointegration and Error Correction mechanism. *Journal of Development Economics and Finance*, *4*(1), 263-276.

Umezurike, C. M., Echekoba, F. N., & Ananwude, A. C. (2019). Does Monetary Policy Affect Stock Market Return? Recent Evidence from the Nigerian Stock Exchange (1986-2018). *South Asian Journal of Social Studies and Economics*, 5(3), 1-8.