



## ABSTRACT

This study analyses the effect of monetary policy rate on capital market deepening in Nigeria over the period, 1981-2021, using Auto-regressive Distributed Lag (ARDL) modelling technique. Findings therefrom reveal that monetary policy rate has negative significant effect on capital market deepening in Nigeria both in the short and long-runs. This implies that the higher the monetary policy rate, the lower the level of capital market deepening in Nigeria. Furthermore, cash reserve ratio and liquidity ratio were found to have positive significant correlation with capital market deepening unlike inflation rate, treasury bill and interest rate which have negative correlation with capital market deepening in Nigeria. The study concludes that

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## NALYSIS OF MONETARY POLICY RATE AND ITS EFFECT ON CAPITAL MARKET DEEPENING IN NIGERIA

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## Introduction

**F**inancial deepening as an aspect of financial development, involves the increase in financial assets relative to the size of the economy. Thus, each segment and sub-market of the financial system could be said to be deepened financially when the size of the assets of the particular segment and sub-market increases in relation to the gross domestic product (GDP) of the economy. Accordingly, there could be money market deepening, capital market deepening, insurance market deepening, banking sector deepening, etc. For instance, when the capital market increases in size relative to the size of the economy and this results in the expansion in financial assets as well as financial services in the economy, then capital market deepening could be said to have taken place. Financial deepening is important in an economy in that promotes economic growth (Ighoroje & Okoroyibo, 2020).

The capital market is surrounded by a web of forces in the macro-economy and these macro-economy factors and forces do impact differently on the performance of the market. The macro-economic factors include the monetary policy instruments like money supply, monetary policy rate, interest rate, cash reserve ratio, liquidity ratio, treasury bill rate. The macro-economic variables have been regarded by the Macroeconomic School of Thought of stock market behavior as key determinants of capital market performance. For instance, for the capital market to develop and deepen, it implies that the cost, availability and supply of credit and money in the economy as determined through monetary policy should be paid attention to. Empirically, past studies have investigated monetary policy generally and its effect on capital market performance in various dimensions. Those studies have investigated monetary policy instruments and their linkage with different aspects of capital market like liquidity of capital market (Akani, and Imegi (2017)); stock market development (Nwokoye and Out (2018)); stock market prices (Jonathan and Oghenebrume (2017)); value of stock traded (Umezurike and Ananwude (2019)); stock returns (Ekene (2016), Ogbonna and Ejem (2020)); and stock market performance generally (Nwakoby and Alajekwu (2016), Echekoba et al. (2018), Osakwe and Chukwunulu (2019), Alugbuo and Chika (2020)). However, to what extent does monetary policy rate influence capital market deepening is still largely unclarified in past



monetary policy rate deteriorates capital market deepening both in the short and long-runs in Nigeria. It is therefore recommended that the monetary policy rate as a tool of monetary policy should be adjusted to promote capital market development in Nigeria.

**Keywords:** Monetary policy, monetary policy rate, capital market, financial deepening, Nigerian Stock Exchange.

empirics. This study is unique in that it focuses on only monetary policy rate as instrument of monetary policy and examined its effect on capital market deepening in Nigeria. The focus on monetary policy rate is due to the fact that the rate is considered a standard (benchmark) rate for other rates in the Nigerian financial market and it is therefore examined vis-à-vis capital market deepening because the capital market is a barometer of the health of the economy, and as such deepening the market is like developing the economy as a whole. Therefore, the thrust of this study to investigate the effect of monetary policy rate on capital market deepening in Nigeria. It is thus hypothesized that monetary policy rate did not have significant effect on capital market deepening in Nigeria.

#### **Literature Review**

##### **Conceptual Review**

Monetary policy is a deliberate action of the monetary authority to regulate the amount, cost and availability of credit and money in the economy (Babarinde & Gidigbi, 2021). In other words, monetary policy refers to the combination of measures designed by the central bank to regulate the value, supply and cost of money in an economy with the intent of influencing aggregate demand (Alugbuo & Chika, 2020; Tonuchi et al., 2021). Tools of monetary policy are many and varied and they include Open Market Operations, interest rate, monetary policy rate, selective credit controls, reserve requirement, special deposits, direct control, prudential guidelines, exchange rate, and rediscount rate.

Monetary policy rate as a key element of the monetary policy instruments can be defined as the rate at which the Central Bank of Nigeria extend credit facilities to other financial institutions operating in the country (Echekoba et al., 2018). In Nigeria, the Monetary Policy Committee of the Central Bank of Nigeria (CBN) determines the monetary policy rate and the rate generally constitutes the reference rate for money market rates and other rates in the Nigerian financial market.

A capital market can be defined as a financial market where medium to long term financial securities (debts, equities and derivatives) are traded. The primary segment of the market provides for trading in new issues while existing securities are traded in the secondary segment of the market. The seat of the Nigerian capital market is the Nigerian Stock Exchange (NSE).

Financial deepening is the ability of financial institutions to effectively mobilize savings for investment purposes (Ighoroje & Okoroyibo, 2020). In other words, financial deepening is an increase in the stock of asset as well as increase in the provision of financial services. It can also be seen as an increased provision of wider range of financial services as well as better access for different socio-economic groups of people in an economy (Godfrey & Agwu, 2020; Nwosu et al., 2021). Babarinde and Enoruwa (2021) also conceptualise financial deepening as the expansion of the financial services in terms of depth and a greater penetration of all strata of the society with varieties of financial services. Furthermore, financial deepening is described as the increased credit availability and expansion of domestic credit to the private sector (Shapoval & Shpanel-Yukhta (2021). According to Ndife and Egungwu (2022), financial deepening is aimed at eradicating the limitations of shallow finance; raising the ratio of private domestic savings to income; increasing the size of



monetary system, generating profit opportunities for investors; strengthening the process of mobilization and allocating savings reducing fiscal process of inflation finance and reliance on foreign aid.

Although the most popular measure of financial deepening is the ratio of private credit to GDP but the review of empirical literature reveals that financial deepening indicators could be broadly classified into three, bank-based, non-bank-based and stock market-based measures. Ratio of money supply to GDP, ratio of domestic credit to GDP, monetization ratio (broad money to GDP ratio), ratio of deposit liability to GDP and ratio of bank assets to GDP, are examples of bank-based measures of financial deepening while non-bank based measures of financial deepening include the size of currency outside the bank, the size of non-bank institutions to the financial system, and ratio of non-bank savings to gross national savings. However, the stock market-based measures of financial deepening include ratio of stock market capitalisation to GDP, ratio of value of shares traded to GDP. Therefore, the capital market as an engine room of economic growth (Babarinde & Enoruwa, 2021), can be said to be deepened when the market assets, resources and services expand in relation to the size of the economy, that is economic growth. Thus, capital market deepening could be measured as the ratio of stock market capitalization to the GDP (Babarinde & Enoruwa, 2021; Nwosu et al., 2021; Ndife & Egungwu, 2022).

#### ***Theoretical Review***

The Arbitrage Pricing Theory (APT) developed by Ross (1976) is a multi-factor general theory of asset pricing and it measures expected return of a financial asset as a linear function of various macroeconomic factors or theoretical market indices, where sensitivity to changes to each factor is represented by a factor-specific beta coefficient (Alugbuo & Chika, 2020). Thus, considering monetary policy rate as a macro-economic factor, this rate could be empirically related to stock market deepening using the framework of APT.

Also, theoretically, the Discounted Cash Flow Model relates the stock price to future expected cash flows and the discount rate of these cash flows (Alugbuo & Chika, 2020). According to the model, stock prices are equal to the present value of expected future net cash flows from the stock (Ekene, 2016). This indicates that any change in monetary policy can influence stocks in two ways: Firstly, through direct effect of adjustment of discount rate of market participants under the assumption that discount factors are generally linked to market rates of interest as well as the monetary authorities' ability to influence the rate of interest using any of its instruments and secondly, changes in monetary policy indirectly affect the value of a firm's stock through its weight on the expected returns (Babangida & Khan, 2021). The authors therefore assert that monetary policy expansion is expected to raise the overall level of economic activity which has a positive effect on the stock market.

#### ***Empirical Review***

Ekene (2016) employed the techniques of variance decompositions and impulse response functions in the investigation of the impact of monetary policy on stock returns in Nigeria between January 2003 and June 2014. In the study, consumer price index, inter-bank rate, open buy-back, treasury bill rate, and exchange rate were examined in terms of their impacts on All-Share-Index (ASI) of the Nigerian Stock Exchange. The study revealed that monetary policy variables did not have a significant impact on the prices of stock in Nigeria.

However, Nwakoby and Alajekwu (2016) examined the effect of monetary policy rate, treasury bill rate, lending interest rate, liquidity ratio and deposit rate on stock market performance (ASI) in Nigeria from 1986 and 2013 using Ordinary Least Squares (OLS) regression and Granger causality techniques. The study established that monetary policy influenced the stock market.

Similarly, Akani and Imegi (2017) analysed the effects of monetary policy transmission mechanism (treasury bill rate, savings rate, prime lending rate, net domestic credit, monetary policy rate, maximum lending rate, exchange rate) on liquidity of the Nigerian capital market (credit to private sector) from 1981-2016 using OLS



regression, Granger causality test, and VECM model. The study found that monetary policy transmission mechanism has significant impact on the liquidity of the capital market.

Ananwude et al (2017) investigated the effect of monetary policy rate and cash reserve ratio on the performance of Nigerian capital market (ASI) from 1986 to 2016 using OLS and causality techniques. The study indicates that monetary policy rate has negative significant relationship with capital market performance while cash reserve ratio positive and significant effect on performance of the capital market.

Also, Jonathan and Oghenebrume (2017) investigated the relationship between monetary policy and stock market prices in Nigeria for the period 1985 to 2015 using Dynamic OLS, Fully Modified OLS and error correction model (ECM) techniques. It was found that monetary policy rate, credit to private sector, exchange rate and broad money supply are positively related to stock market prices while exchange rate and broad money supply were found to have significant impact on stock market prices in Nigeria.

Nwokoye and Otu (2018) investigated the impact of monetary policy on the development of the stock market in Nigeria for the period, 1981 to 2015. From the VECM result, the study revealed that monetary policy impacted the development of the stock market positively and significantly in Nigeria.

Also, Echekoba et al (2018) assessed the effect of monetary policy (monetary policy rate, cash reserve ratio, liquidity ratio and loan to deposit ratio) on the performance of the Nigerian capital market. The study indicates that monetary policy does not have significant on the Nigerian capital market performance.

Furthermore, Osakwe and Chukwunulu (2019) applied OLS regression technique to the study of the effect of monetary policy (money supply, interest rate and exchange rate) on stock market performance (ASI) in Nigeria from 1986 to 2015. The study found that money supply and exchange rate have positive significant effect on stock market price movement unlike interest rate which has negative insignificant effect on stock market price movement.

In another study, Umezurike and Ananwude (2019), established the presence of an inverse linkage between monetary policy rate and value of stock traded in Nigeria. The study asserted that monetary policy rate propels real economic activity which translates to affect the behavior of the stock market. Also, the study found that a higher monetary policy rate results in high lending rate causing security prices to be volatile and investment in capital market less attractive.

Ogbonna and Ejem (2020) examined the relationship between monetary policy variables (monetary policy rates, cash reserve ratio, liquidity ratio and savings deposit rate) and performance of the Nigerian capital market (ASI) from 1989 to 2018 using Auto-regressive Distributed Lag (ARDL) technique. The study found that monetary policy rate has negative significant relationship with the performance of the capital market in Nigeria. It was also found that cash reserve ratio, liquidity ratio and savings deposit rate have no significant relationship with the performance of the capital market in Nigeria.

Babangida and Khan (2021) studied the nonlinear effect of monetary policy on the performance of the NSE from 2013 M4 to 2019 M12, using Smooth Transition Autoregressive (STAR) model. The results of the study show that monetary policy rate, money supply, lagged monetary policy rate and lagged treasury bill rate have positive significant effects on the stock exchange market in the lower regime while current treasury bill rate shows a negative effect. However, in the upper regime, money supply and lagged treasury bill rate have significant negative effect on the stock market.

Akanbi (2021) also examined the impact of monetary policies on the performance on stock market performance in Nigeria for the period 2011–2018. The study shows among others that monetary policy rate has a positive non-significant impact on stock market performance in Nigeria.

### **Methods**

In line with ex-post facto research design, the study obtained secondary to investigate the effect of monetary policy rate on capital market deepening in Nigeria. The annual time series data used in the study were sourced from CBN statistical bulletin covering the period from 1981 to 2021.



In this study, capital market deepening constitutes the dependent variable while monetary policy rates, cash reserve ration, treasury bill, lending interest rate, liquidity ration are the explanatory variables. Capital market deepening which is an expansion of capital market in relation to the size of the economy, is measured as stock market capitalization to GDP ratio (Babarinde & Enoruwa, 2021; Nwosu et al., 2021) while monetary policy rate (expressed in percent) is as given by the CBN (Babarinde & Gidigbi, 2022; Demehin, 2021; Babangida & Khan, 2021). Cash reserve ratio is the ratio of cash deposit with CBN to the total deposit liabilities of the banks. Treasury bill rate is the rate usually used to determine the risk-free rate in Nigeria (Akanbi, 2021). Lending interest rate (expressed in percent) is the prime lending rate and constitutes the cost of borrowing finance to the borrower (Akanbi, 2021) and it is measured as the weighted average lending interest rate of deposit money banks (Ademokoya et al., 2020; Demehin, 2021; Babarinde & Gidigbi, 2022). Liquidity ratio is the statutory actual liquidity ratio (expressed in percent) (Aberé et al., 2020, Babarinde & Gidigbi, 2022). Inflation rate is measured as the percentage changes in annual consumer price index.

The time series econometric procedures in data analysis commences with preliminary tests like descriptive statistics, Pearson correlation test, Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests; Variance Inflation Factors (VIF) multicollinearity test and F-Bounds cointegration test. The estimation of the ARDL model follows after the preliminary tests. Both short-run and long-run estimation using ARDL approach carried out. Thereafter, some post-estimation diagnostic test were conducted and these tests include Ramsey RESET test of model specification, Jarque-Bera test of normality, Breusch-Godfrey serial correlation LM test and ARCH heteroskedasticity test.

## Results and Discussion

### Descriptive Statistics

Table 1 contains the descriptive statistics on stock market deepening (MCAP), cash reserve ratio (CRR), inflation rate (INF), interest rate (INTR), liquidity (LIQ) and treasury bills rate (TBR).

**Table 1: Descriptive Statistics**

	MCAP	CRR	INFR	INT	LIQ	MPR	TBR
Mean	11.25978	9.653659	18.94980	17.30976	49.09756	13.00000	12.79634
Maximum	38.01393	27.50000	72.83550	29.80000	104.2000	26.00000	26.90000
Minimum	3.085372	1.100000	5.388008	7.750000	26.39000	6.000000	4.500000
Std. Dev.	8.474718	7.539002	16.65923	4.637929	14.69148	3.959167	4.884910
Skewness	0.962094	1.001659	1.854078	0.269160	1.455989	0.734305	0.391721
Kurtosis	3.481859	2.951513	5.306355	3.517307	6.355396	4.542775	3.077358
Jarque-Bera	6.721761	6.860043	32.57740	0.952215	33.71959	7.750652	1.058767
Probability	0.034705	0.032386	0.000000	0.621197	0.000000	0.020748	0.588968
Observations	41	41	41	41	41	41	41

Source: Author's computation using Eviews 10 (2023).

Table 1 indicates that stock market deepening has an average value of 11.2597 which is more than its standard and this confirms the relative stability of stock market deepening in Nigeria in the study period. Like stock market capitalization, other variables did not also display relatively wide dispersion from their mean values. Furthermore, the Jarque-Bera statistics indicate that except inflation rate and liquidity ratio which are not normally distributed, all other variables are normally distributed in the period of the study.

### Correlation Analysis

Pearson correlation test of relationship between monetary policy variables and stock market deepening was conducted and the results are as summarized in Table 2.





**Table 2: Pearson Correlation Test**

	MCAP	CRR	INF	INT	LIQ	MPR	TBR
MCAP	1.0000						
CRR	0.4554*	1.0000					
INF	-0.3784**	-0.2217	1.0000				
INT	-0.1449	-0.1850	0.3367**	1.0000			
LIQ	0.1383	0.4212*	-0.2543	-0.2034	1.0000		
MPR	-0.3069***	0.0425	0.3607**	0.6190*	0.0661	1.0000	
TBR	-0.1784	0.1831	0.2782***	0.6195*	-0.0355	0.7943*	1.0000

Source: Author's computation using Eviews 10 (2023). \*, \*\* and \*\*\* statistically significant at 1%, 5% and 10% respectively.

According to the correlation matrix in Table 2, monetary policy rate with a correlation coefficient of (-0.3069), is negatively associated with capital market deepening and the relationship is statistically significant at 10% level of significance. This implies that the higher the monetary policy rate, the lower the level of capital market deepening in Nigeria. Likewise, inflation rate, interest rate and treasury bill rate are negatively correlated with stock market deepening unlike a positive association of cash reserve ratio and liquidity ratio which have positive correlation with stock market deepening in Nigeria in the study period.

Further insight from the correlation matrix is that the explanatory variables correlate well, spreading between a minimum correlation coefficient of -0.1850 and a maximum correlation coefficient of 0.7943. The highest correlation coefficient (0.7943) does not exceed the 0.80 threshold, thus suggesting lack of multicollinearity problem among the regressors (Gujarati, 2003).

#### Unit Root Tests

The results of the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests are summarized in Table 3.

**Table 3: Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) Unit Root Tests**

Variables	ADF Statistics		PP Statistics		Remarks
	Level	First Difference	Level	First Difference	
MCAP	-1.587584	-6.150198***	-1.320574	-9.325013***	I(1)
CRR	0.395960	-2.774514*	-0.004737	-6.078970***	I(1)
INF	-3.630290***	-	-2.877487*	-	I(0)
INT	-3.399468**	-	-3.362994**	-	I(0)
LIQ	-3.534723**	-	-3.548410**	-	I(0)
MPR	-3.334522**	-	-3.295308**	-	I(0)
TBR	-3.199330**	-	-3.199191**	-	I(0)

Source: Author's computation using Eviews 10 (2023). Note: \*\* and \*\*\* significant at 5% and 10% respectively.

Table 3 reveals that the null hypothesis that INF, INT, LIQ, MPR and TBR has a unit root can be rejected in level while that of CRR and MCAP is rejected at first difference. This implies that except capital market deepening and cash reserve ratio which are integrated of order one, all other variables are integrated of order zero.

#### Multicollinearity Test

Multicollinearity test was conducted using Tolerance Factors (TOL) and Variance Inflation Factors (VIF) techniques and the results are reported in Table 4.



**Table 4: Tolerance Factors (TOL) and Variance Inflation Factors**

Variable	Tolerance Factors (TOL)	Variance Inflation Factors (VIFs)
MCAP(-1)	0.010799	2.131130
CRR	0.018060	2.990650
INF	0.001772	1.432252
INT	0.049042	2.738864
INT(-1)	0.045234	2.722786
LIQ	0.002782	1.725988
LIQ(-1)	0.003645	2.252496
MPR	0.112153	4.711654
MPR(-1)	0.110300	5.018768
TBR	0.092551	6.014441
TBR(-1)	0.071370	4.920179

Source: Author's computation using Eviews 10 (2023).

Table 4 reveals that Variance Inflation Factor of each of the variables does not exceed 10 and the tolerance value is less than unity. Thus, there is no multicollinearity problem among the explanatory variables of the study.

#### **Cointegration Test**

The result of the F-Bounds test of cointegration of the variables of study is as presented in Table 5.

**Table 5: F-Bounds Cointegration Test**

F-Bounds Test	Null Hypothesis: No levels relationship			
	Value	Signif.	I(0)	I(1)
F-statistic	4.591235	10%	1.99	2.94
K	6	5%	2.27	3.28
		1%	2.88	3.99

Source: Author's computation using Eviews 10 (2023).

Table 5 indicates that the null hypothesis of no levels relationship can be rejected at the three ideal levels of significance. Hence, there is a long-run relationship between monetary policy rate and capital market deepening in Nigeria.

#### **ARDL Long-Run Regression Model**

The result of the ARDL long-run regression model is presented in Table 6.

**Table 6: ARDL Long-Run Estimates**

Dependent Variable:	MCAP	
	Coefficients	Probability
MCAP(-1)	0.715797	0.0000*
CRR	-0.059751	0.6600
INF	-0.010663	0.8019
INT	0.224747	0.3189
INT(-1)	0.400232	0.0703***
LIQ	-0.006297	0.9058



LIQ(-1)	0.268342	0.0001*
MPR	-0.735052	0.0366**
MPR(-1)	-0.712895	0.0406**
TBR	0.339670	0.2737
TBR(-1)	0.381494	0.1643
C	-9.658612	0.0478**
R-squared	0.863320	
Adjusted R-squared	0.809624	
F-statistic	16.07797	
Prob(F-statistic)	0.000000*	
Durbin-Watson stat	1.792715	

Source: Author's computation using Eviews 10 (2023).

Table 6 indicates that in the long-run, monetary policy rate is negatively signed with stock market deepening and the impact of the former on the latter is statistically significant. This means that monetary policy rate did not encourage stock market deepening in Nigeria, thus the higher the CBN raises the monetary policy the lower the level of deepening in the Nigerian stock market. However, lending interest rate and liquidity ration have positive and significant effect on stock market deepening in Nigeria in the long-run. Cash reserve ratio, inflation rate, and treasury bill do not have significant effect on stock market deepening in Nigeria in the long-run.

#### **ARDL Error Correction Regression**

The result of the ARDL error correction regression is reported in Table 7.

**Table 7: ARDL Short-Run Estimates**

Dependent Variable:		D(MCAP)
Variable	Coefficient	Prob.
D(INT)	0.224747	0.1505
D(LIQ)	-0.006297	0.8756
D(MPR)	-0.735052	0.0095
D(TBR)	0.339670	0.1213
ECT	-0.284203	0.0000
R-squared	0.557126	
Adjusted R-squared	0.506512	
Durbin-Watson stat	1.792715	

Source: Author's computation using Eviews 10 (2023).

The ARDL short-run estimates in Table 7 suggest that in the short-run, monetary policy rate has significant and negative effect on capital market deepening in Nigeria. However, interest rate, liquidity ratio and treasury bill rate did not have significant effect on capital market deepening in Nigeria. However, the error correction term (ECT) is negative (-0.284203) and statistically significant at 1%. This implies that the error in the ARDL long-run model is corrected at 28.4 % per annum.

#### **Model Diagnostic Tests**

Table 8 and Fig. 1 contain the results of the post-estimation diagnostic tests.





Table 8: Model Diagnostic Tests

Tests	F-statistic	Probability
Ramsey RESET Test	1.123554	0.2985
Jarque-Bera Test	28.39566	0.4151
Breusch-Godfrey Serial Correlation LM Test	0.501531	0.6113
Heteroskedasticity Test: ARCH Test	1.828000	0.1846

Source: Authors' computation using Eviews 10 (2023).

The post-estimation diagnostic tests as reported in Table 8 reveal that the ARDL model is correctly specified (no misspecification error); normally distributed, does not suffer from serial correlation problem and is at the same time homoscedastic in nature.

In the same vein, CUSUM test of model stability also confirms that the model is relatively stable and estimates could be reliable.

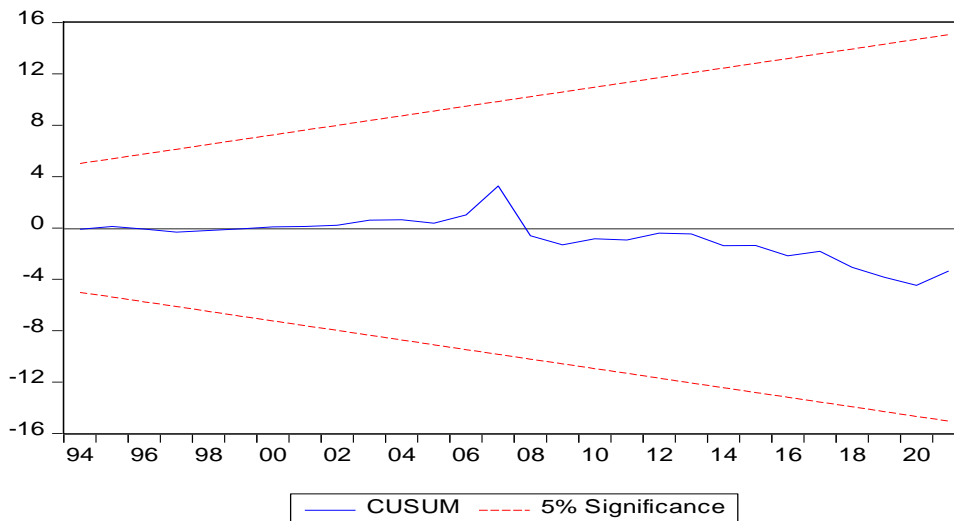


Fig. 1: Cumulative sum of squared residuals (CUSUM) test

Source: Researchers' plot using E-views 10 (2023)

### Conclusion and Recommendations

This study analyses the effect of monetary policy rate on capital market deepening in Nigeria over the period 1981 and 2021 using Auto-regressive Distributed Lag (ARDL) modelling technique. Empirical findings from the correlation analysis indicates that monetary policy rate is negatively associated with capital market deepening and the relationship is statistically significant. This implies that the higher the monetary policy rate, the lower the level of capital market deepening in Nigeria. Likewise, inflation rate, interest rate and treasury bill rate are negatively correlated with stock market deepening unlike a positive association of cash reserve ratio and liquidity ratio which have positive correlation with stock market deepening in Nigeria.

Further evidence from ARDL model indicates that in the long-run, monetary policy rate is negatively signed with stock market deepening and the impact of the former on the latter is statistically significant. This means that monetary policy rate did not encourage stock market deepening in Nigeria, thus the higher the CBN raises the monetary policy the lower the level of deepening in the Nigerian stock market. However, lending interest rate and liquidity ration have positive and significant effect on stock market deepening in Nigeria in the long-run. Cash reserve ratio, inflation rate, and treasury bill do not have significant effect on stock market deepening in Nigeria in the long-run. However, in the short-run, monetary policy rate has significant and



negative effect on capital market deepening in Nigeria. However, interest rate, liquidity ratio and treasury bill rate did not have significant effect on capital market deepening in Nigeria.

The study concludes that monetary policy rate deteriorates capital market deepening both in the short and long-runs in Nigeria. It is therefore recommended that the monetary policy rate as tool of monetary policy should be adjusted to enhance capital market development in Nigeria.

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