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Effect of fiscal policy on the performance of Nigeria stock market (1999-2023)

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Abstract

This study examined the impact of fiscal policy on stock market performance in Nigeria from 1999 to 2023. Utilizing secondary data from the national bureau of statistics Annual bulletin, the study analysed the effects of government spending, taxation policies, and government borrowing on the stock market. The Ordinary Least Squares (OLS) regression method was employed to determine the relationship between these fiscal policy variables and stock market performance. The findings revealed that government spending has a statistically significant positive relationship with stock market performance, accounting for 64.8% of the variability ($R^2 = 0.648$, $p < 0.05$); the government taxation policies statistically significant effect on stock market performance accounts for 52.1% of the variability ($R^2 = 0.521$, $p < 0.05$); the government borrowing significantly influence stock market performance in Nigeria at 75.6% ($R^2 = 0.75.6$, $p < 0.05$). Government spending positively impacts the stock market by stimulating economic activities, while favourable taxation policies enhance investor confidence and market trends. Conversely, excessive government borrowing can negatively affect the stock market due to higher interest rates and crowding out of private investment. Effective fiscal policy tools are shown to promote long-term growth and stability in the stock market. The findings revealed that government spending has a statistically significant positive relationship with stock market performance, accounting for 64.8% of the variability ($R^2 = 0.648$, $p < 0.05$).". Based on these findings, it is recommended that the Nigerian government adopts prudent fiscal policies to foster a conducive investment environment and stimulate stock market performance.

Introduction

The dynamic interplay between fiscal policy and the performance of the stock market in Nigeria forms the central theme of this enquiry. This investigation seeks to uncover the ripple effects that government fiscal maneuvers, encapsulated in

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spending, taxation, and debt management, exert on the stock market's vitality—a hub of economic sentiments and a barometer of a country's financial health. Historically, the Nigerian economy has traversed a complex trajectory marked by periods of oil-driven booms and devastating recessions. This economic rollercoaster has invariably imprinted on the Nigerian stock market, eliciting a need to scrutinize the underpinnings of such volatility. Notably, the fiscal policy stance adopted by the government, whether expansionary or contractionary, has emerged as a critical determinant of stock market performance. For instance, periods of increased government spending and reduced taxation have sometimes correlated with stock market optimism, suggesting a possible linkage worth exploring (Adelegan, 2009).

Further illumination on this topic is provided by examining the impact of government debt on stock market dynamics. The escalating national debt, peaking at a concerning percentage of the Gross Domestic Product (GDP), ostensibly exerts pressure on the stock market by crowding out private investment and engendering inflationary fears (Onyekwelu & Ugwuanyi, 2020). This scenario underscores the multifaceted influence of fiscal policy on the stock market, substantiating the necessity of this study. From an observational perspective, the fluctuating patterns of the Nigerian stock market, characterized by irregular bouts of gains and downturns, raise questions about the underlying forces at play. Particularly, the stock market's turnover ratio, a vital indicator of market activity and liquidity, has shown considerable sensitivity to government fiscal actions. For instance, a spike in tax revenue collection as a fraction of GDP often heralds investor optimism, translating to increased stock market activity (Amadi, 2018). Current data further buttress the enigmatic relationship between fiscal policy and stock market performance in Nigeria.

The stock market's reaction to the announcement of fiscal policy changes serves as a testament to the market's sensitivity to government fiscal behavior (CBN, 2021). This observation not only piques curiosity but also accentuates the need for a systematic exploration of this relationship. Delving into the theoretical underpinnings, the independent variables—tax revenue as a percentage of GDP, government domestic debt accumulation as a percentage of GDP, net domestic lending/borrowing as a percentage of GDP, government expenditure as a percentage of GDP, fiscal balance, and primary balance—are all entrenched in the fiscal policy literature. Scholars like Keynes (1936) have articulated the potential of government fiscal maneuvers to steer economic activity, thereby indirectly impacting the stock market. Conversely, the dependent variable, the performance of the Nigerian stock market, represented by the stock market turnover percentage, encapsulates the vitality and attractiveness of the market to investors. Tobin's (1969) theory of asset markets suggests that fiscal policy, by influencing macroeconomic variables, could significantly sway investors' sentiments and behaviors, thereby affecting stock market performance. The linkage between the independent and dependent variables is theoretically grounded and empirically

observable. Fiscal policy instruments, such as government expenditure and tax revenue, can alter economic expectations and realities, thereby influencing the decision-making process of investors in the stock market. Experts like Barro (1974) and Mundell (1963) have underscored the potential of fiscal policy to influence macroeconomic conditions, which in turn affects stock market performance. This investigation traverses beyond mere academic curiosity to unravel the complexities of fiscal policy's impact on the Nigerian stock market. By shedding light on this intricate relationship, it aspires to contribute to the broader discourse on economic policy and market performance in the context of an emerging economy like Nigeria.

In a thriving economy, the stock market operates as a pivotal heart, pumping financial resources and facilitating growth and development. The performance of the stock market is critical for investors, companies, and the overall economic health. A well-performing stock market indicates robust economic activities, offering companies the chance to raise capital and investors the opportunity to earn returns on their investments. Thus, the optimal situation involves a stable and flourishing stock market, contributing significantly to national economic development. The Nigerian stock market, however, has faced its share of challenges, exhibiting fluctuations that have raised concerns among investors and policymakers alike. While there are periods of significant growth, instances of decline and volatility have not been uncommon. This inconsistency in performance has implications for investor confidence, the ability of companies to raise capital, and the broader economic landscape of the country.

Over the years, various strategies and policies have been implemented to stabilize and enhance the performance of the Nigerian stock market. Among these, fiscal policies play a crucial role. Fiscal policies including taxation, government spending, and borrowing are tools used by the government to influence economic conditions. These measures are aimed at achieving a stable and growth-conducive economic environment, which in turn should support a steady and robust stock market. However, despite the implementation of these fiscal measures, the Nigerian stock market’s performance has not reached its full potential. The effectiveness of fiscal policies in positively impacting the stock market remains a subject of debate. This has led to varying degrees of investor confidence and has had ripple effects on the broader economy, affecting everything from corporate investment opportunities to individual investment decisions.

One significant consequence of this problem is the less use of the stock market as a channel for economic growth. If the stock market does not perform optimally, it can limit the ability of businesses to raise capital, deter investors, and ultimately slow down economic development. This situation necessitates a deeper investigation into the relationship between fiscal policy and stock market performance to identify what measures are truly effective in promoting a stable

and thriving stock market. Despite the critical role that fiscal policy can play in shaping the performance of the stock market, there remains a gap in understanding exactly how these policies impact the stock market in the Nigerian context. While prior research has examined the effects of fiscal policy on macroeconomic variables, few studies have specifically explored the Nigerian stock market's unique responses to government borrowing and taxation.

This research therefore aims to bridge this gap by providing a comprehensive analysis of the influence of fiscal policy on the performance of the Nigerian stock market. By examining various aspects of fiscal policy, including tax revenue, government debt, and expenditure, this study seeks to uncover the dynamics at play in the Nigerian context. The need for this research is underscored by the importance of the stock market in fueling economic growth and the potential of fiscal policy to guide its performance. The Specific objectives include: (a) to analyze the effect of government spending on the Nigeria stock market; (b) to assess the effect of taxation policies on investors behavior and Nigeria market trend; (d) to investigate the correlation between government borrowing and interest rate with stock market performance in Nigeria; (d) to explore the effectiveness of fiscal policy tools in promoting long term growth and stability in the Nigeria stock market.

Literature Review

Conceptual Review

Fiscal Policy

John Maynard Keynes (1936) defined fiscal policy as the use of government spending and taxation to influence aggregate demand in the economy. According to Keynesian economics, during economic downturns, governments should increase spending and reduce taxes to stimulate consumption and investment, thereby boosting economic activity. Conversely, during periods of inflation or economic overheating, fiscal policy should aim to reduce aggregate demand through higher taxes and reduced government spending. Olivier Blanchard (2000) expanded the definition of fiscal policy to include its role in achieving long-term economic objectives such as sustainable growth and income distribution. He highlighted the importance of fiscal discipline and strategic management of government expenditures and revenues to maintain macroeconomic stability.

Blanchard's perspective on fiscal policy emphasizes a balanced approach that integrates both short-term and long-term goals. He argued that while fiscal policy is crucial for immediate economic stabilization, it also plays a vital role in shaping the future trajectory of the economy. This dual focus requires careful calibration of government spending and taxation policies to support economic growth without compromising fiscal sustainability.

Government Spending

Government spending, also known as public expenditure, refers to the total amount of money that a government uses to finance its activities and fulfill its various roles within the economy. This spending is essential for the provision of public goods and services, infrastructure development, social welfare programs, and overall economic stability and growth. Richard (1959), a pioneer in public finance, defined government spending as the allocation of resources by the state to fulfill its economic, social, and administrative responsibilities. According to Musgrave, government expenditures are aimed at correcting market failures, redistributing income, and stabilizing the economy. In his view, effective government spending can enhance economic efficiency, promote equity, and support steady economic growth, thereby positively impacting the stock market by fostering a stable and conducive investment environment.

Types of Government Spending

Government spending can be broadly categorized into two main types: capital expenditure and recurrent expenditure.

1. Capital Expenditure

Capital expenditure (CapEx) refers to the funds allocated by a government for the acquisition, construction, and maintenance of long-term assets that contribute to the country's infrastructure and overall economic development. These expenditures are intended to create future benefits, such as improved public services, increased productivity, and enhanced economic growth. The IMF defines capital expenditure as "expenditures on goods and services that are expected to benefit the economy over many years, such as buildings, equipment, roads, and other infrastructure" (IMF, 2019). Capital expenditure focuses on investments that yield economic benefits over an extended period. These investments are typically aimed at enhancing the productive capacity of the economy and improving the quality of life for its citizens. For instance, building durable infrastructure like roads and bridges not only facilitates transportation but also supports economic activities across various sectors, thereby contributing to long-term economic growth.

2. Recurrent Expenditure

Recurrent expenditure refers to the on-going operational expenses required for the day-to-day functioning of the government and its various departments. These expenditures include salaries, wages, maintenance costs, and other operational costs necessary for the smooth operation of government services. According to the IMF, recurrent expenditure is defined as "expenditures on goods and services consumed within the fiscal year, which must be made recurrently to sustain government operations, such as salaries of public employees, utilities, and maintenance of public assets" (IMF, 2019). Recurrent expenditure focuses on the

short-term financial obligations that ensure the continuous provision of public services. These expenditures are essential for maintaining the infrastructure and services that support the economic and social well-being of the population. For instance, paying the salaries of teachers, healthcare workers, and other public servants is critical for the uninterrupted delivery of education, healthcare, and other essential services. Similarly, maintenance costs for public infrastructure like roads and schools ensure that these assets remain functional and safe for public use.

Taxation

Taxation is a fundamental component of fiscal policy, playing a crucial role in government revenue generation and economic regulation. Smith (1996) defined taxation as the process by which governments finance their expenditure by imposing charges on citizens and corporate entities. Smith outlined four maxims of taxation equity, certainty, convenience, and efficiency arguing that a good tax system should be fair, predictable, easy to pay, and economical to collect. Smith's principle highlights the importance of designing tax policies that minimize economic distortions and enhance voluntary compliance. Ricardo (1998) highlighted the economic implications of taxation in his work, "Principles of Political Economy and Taxation." He argued that taxes should not impede capital accumulation or economic growth. Ricardo's theory of comparative advantage emphasized that efficient allocation of resources could be disrupted by poorly designed taxes, leading to suboptimal economic outcomes. This perspective suggests that tax policies should be structured to promote investment and economic efficiency, thereby supporting stock market performance.

Blanchard and Perotti (2002) examined the macroeconomic effects of fiscal policy, including taxation, in their influential work. They found that tax cuts can stimulate economic activity and increase output, particularly during recessions. However, they also highlighted the importance of fiscal discipline to avoid long-term deficits that could harm economic stability and investor confidence. Blanchard and Perotti's research demonstrated that tax cuts can have immediate positive effects on aggregate demand. By increasing disposable income, tax reductions can boost consumer spending and investment, leading to higher economic output. This effect is particularly pronounced during economic downturns when there is underutilized capacity in the economy. Their findings support the Keynesian view that active fiscal policy can mitigate the adverse effects of recessions and promote economic recovery.

The Nigerian Stock Market

The stock market is a vital component of any economy, serving as a marketplace where shares of publicly listed companies are bought and sold. It provides a platform for investors to participate in corporate ownership and profit from company growth. In essence, the stock market facilitates capital formation by

enabling companies to raise funds for expansion and innovation through the sale of stocks (equities). In Nigeria, the Nigerian Stock Exchange (NSE) fulfils this role, functioning as the primary exchange where trading occurs. The NSE plays a crucial role in the nation's economic framework by promoting transparency, liquidity, and investor protection. It serves as a barometer for economic health, reflecting investor confidence and economic prospects.Investor sentiment in the Nigerian Stock Market is influenced by a myriad of factors, including fiscal policies enacted by the government (Smith, 2015; Johnson & Brown, 2018). Fiscal policies, such as government spending and taxation, directly impact corporate earnings, market liquidity, and investor behaviour. For instance, increases in government spending typically stimulate economic activities, thereby potentially boosting stock market performance. Conversely, changes in tax policies can affect corporate profitability and investor returns, influencing market dynamics.

Market Size Stock

Market size is a key determinant, and it is very important in measuring stock market performance because of its ability to mobilize funds and diversify investment risk in an economy. The market size could be measured by capturing the number of listed securities, capitalization of both companies and market, market capitalization ratio and their respective growth rates. Observing the trend of the market size of the Nigerian Stock Exchange from the year 2000, it can be seen that in the year 2000, the number of listed companies on the Nigerian stock exchange was 195 and this reduced by 0.5% to 194 companies in 2001. There was an increase to 200, 207, and 214 in 2003, 2004 and 2005 respectively, but declined by 5.6% to 202 in 2006. The listing reached its zenith in the year 2007 when the NSE recorded 309 securities. However, after the global financial crisis, there was a drastic fall which led to a huge decline by 2.9%, 11.9% and 1.1% in 2008, 2009 and 2012, respectively. During the recession, the average number of listed companies on the stock exchange was within the bound 301 and 258. And in 2015, the number of listed companies on the Nigerian stock market was 184. This shows that the market size dropped sharply after the financial crisis and this could be a reason why the performance of the Nigerian Stock Exchange is still below the optimal level.

Keynesian Economic Theory

The Keynesian Economic Theory was developed by John Maynard Keynes in the 1930s, particularly during the Great Depression. The Keynesian Economic Theory advocates that active government intervention is essential to manage economic cycles. Keynes argued that during periods of economic depression, private sector demand often falls short, leading to unemployment and underutilized resources. In such scenarios, government intervention through increased public spending and tax cuts is necessary to boost aggregate demand, stimulate economic activity, and reduce unemployment (Keynes, 1936). Conversely, during periods of

economic overheating, reducing government spending or increasing taxes can help cool down inflation. Keynes posited that fiscal policy could influence aggregate demand directly by affecting government spending and indirectly by altering households' and businesses' expectations about future economic conditions. For instance, during a recession, increased government expenditure can lead to higher demand for goods and services, prompting businesses to expand production and hire more workers, thereby creating a positive multiplier effect throughout the economy (Samuelson & Nordhaus, 2010).

The Keynesian Economic Theory is highly relevant to the current research as it underscores the significant role of fiscal policy in influencing economic performance, including the stock market. In the context of the Nigerian stock market, this theory suggests that government actions such as changes in taxation, domestic debt accumulation, and government expenditure can have direct and indirect effects on market performance. For example, increased government spending in key sectors might boost investor confidence, leading to higher stock market turnover and improved market performance. Conversely, excessive government borrowing could crowd out private investment, leading to adverse effects on the stock market. By examining these relationships, the study aligns with the Keynesian perspective that considers both the stimulative and retarding impacts of fiscal policy on economic outcomes (Blanchard, 2019).

Empirical Review

Kanu *et al*. (2022) explored the impact of fiscal policy tools on economic growth in Nigeria with a focus on time series data from 1999 to 2020. Data was sourced from various statistical bulletins. Their findings indicated that in the short run, deficit financing, domestic debt, and recurrent expenditures positively impacted economic growth, while external debts had a negative effect. In the long run, only the lagged value of Real GDP remained significant. The study concluded that fiscal policy tools alone are insufficient for economic stability. According to Keynes (1936), fiscal policy stimulates aggregate demand, which can lead to increased stock market performance. This relationship is further supported by Kanu et al. (2022), who found that government spending had a significant positive effect on Nigeria's economic growth, a precursor to stock market performance." Gabriel *et al*, (2022) examined the impact of fiscal policy on economic growth in Nigeria, focusing specifically on the differences between regulated and deregulated fiscal regimes from 1970 to 2019. The findings revealed that government capital expenditure had a significant negative impact on economic growth during the deregulated period, but this effect was insignificant during the regulated period. In contrast, government recurrent expenditure had a significant positive impact on economic growth in the deregulated period and an insignificant effect during the regulated period. Additionally, the study found that fiscal policy was more effective in the deregulated period compared to the regulated period and that government borrowing had a positive effect on stock market performance during

deregulated periods, this study seeks to explore whether such results hold in the context of Nigeria's fiscal structure, particularly in periods of debt accumulation. This is in line with the Keynesian theory who argued that fiscal policy has limited effects on long term economic growth.

Ukangwa *et al.* (2023) examined the impact of fiscal policy on the economic growth of Nigeria. The researchers sourced data from the Central Bank of Nigeria's statistical bulletin for the period between 1990 and 2021. The findings indicated a linear relationship between Gross Domestic Product (GDP) and variables such as Public Debt, Tax Revenue, and Government Expenditure. Specifically, Public Debt and Tax Revenue related negatively to GDP, while Total Government Expenditure showed a positive relationship. This view is in tandem with both Keynesian theory and Modern Portfolio theory. MPT explains how investors can maximize returns by diversifying their portfolios to manage risk. In the context of fiscal policy, changes in government spending or taxation can affect different sectors of the economy differently. Adedayo and Victor (2020) studied the effect of fiscal and monetary policy on economic growth in Nigeria, aiming specifically to ascertain how monetary policy influences economic growth. Utilizing a time series analysis from 1989 to 2018. The research employed data sourced from the World Development Indicators (WDI) and the Central Bank of Nigeria Statistical Bulletin. The Autoregressive Distributed Lag Model (ARDL) was used for data analysis. Their findings indicated that money supply, government total expenditure, and government total revenue significantly impact Nigeria's economic growth. The study aligns with both the Monetarist and Keynesian theory which is supported by this study.

Eze and Nnaemeka (2023) examined the impact of public debts accumulation on economic growth in Nigeria, with a focus on issues and implications for economic recovery. The study adopted a multiple regression research design and employed the Autoregressive Distributed Lag (ARDL) model as the primary technique for data analysis. analysis revealed that both external debt (LEXD) and domestic debt (LDD) negatively impact Nigeria's economic growth rate (LGDP). However, while external debt had a significant effect, domestic debt did not show a significant impact which is equally in line with the adopted Keynesian theory on this study. Nnamdi (2022) examined the relationship between government expenditure and economic growth in Nigeria through an aggregate level analysis using the Bound Test Approach. An ex-post facto research design was utilized for this study. The findings revealed that total government expenditure positively impacted economic growth, aligning with Keynesian economic theory. The study also found a uni-directional causal relationship from GDP to government expenditure, supporting Keynesian theory as well as Wagner's theory.

Gap of the Study

The reviewed studies primarily focus on the impact of fiscal policy on economic growth in Nigeria, employing various proxies such as government expenditure, inflation revenue, domestic and external debt. While these studies provide

valuable insights into how fiscal policy influences overall economic growth, there is a significant gap in the literature regarding the specific impact of fiscal policy on the performance of the Nigerian stock market. Specifically, none of the empirical reviews have delved into understanding how distinct fiscal policy variables like tax revenue, government domestic debt accumulation, net domestic lending/borrowing, government expenditure, fiscal balance, and primary balance effect of stock market metrics such as stock market turnover percentage. Thus, this research aims to fill this unique gap by examining the relationship between fiscal policy and the performance of the Nigerian stock market. This new dimension could offer policymakers crucial insights for tailoring fiscal policies to optimize stock market performance, ultimately contributing to broader economic stability and growth in Nigeria.

Methodology

This methodology is focused was on the research design, model specification, description, and measurement of variables, as well as the sources of data. The primary aim was to establish a framework that could effectively analyze the relationship between fiscal policy and stock market performance in Nigeria.

Research Design

For this study, an *expost-facto* research design was chosen. This aligns with the research objectives of determining the impacts of government spending, taxation policies, government borrowing, interest rate, effectiveness of fiscal policy tools on stock market performance in Nigeria. *Expost-facto* research was chosen due to the retrospective nature of the study, allowing for an analysis of historical data without manipulating variables. The data from the National Bureau of Statistics is considered reliable due to its regular publication and use in previous fiscal studies. Moreover, this design was the most suitable design choice for this study as it allowed for the examination of the relationships between fiscal policy and stock market performance without the need for experimental manipulation. Given that the data for the analysis was readily available.

Population of the study

The population of this study comprised all the companies listed on the Nigeria Exchange Group (NGX) as of December 31st, 2021. From this population, a purposive sample of data from the NGX and relevant government fiscal policy records was selected for analysis. The sample period will cover the years from 1999 to 2023. This period spans multiple political administrations and major economic events that shaped both government fiscal policies and performance of the Nigerian stock market. Fiscal policy saw significant shifts aimed at stabilizing the economy. Diversifying revenue sources and managing public debt. The stock market experienced periods of robust growth, particularly during economic reforms and recovery phases, but also faced downturns during global crises, oil price shocks, and domestic challenges.

Method of Data Collection and Sources

The method of data collection as used in this study is wholly secondary data. The data were sourced from National Bureau of Statistics from 1999-2023 (that is, spanning the period of 24 years).

The primary sources of data used were official publications and reports from government agencies such as the Central Bank of Nigeria, the Debt Management Office, and the National Bureau of Statistics. International data sources included the International monetary fund website.

3.4 Description and Measurement of Variables

Independent: Fiscal policy	**Measured By**
Government spending	Total Government Expenditure by year end
Taxation policies	Total Tax revenue
Government borrowing	Total public debt
fiscal policy tools effect	Inflation rate. This is because all fiscal policy tools aim to stabilize price index in the economy
Dependent: Performance of stock market	
Stock market turnover ratio	

Source: Researchers Compilation (2024)

Justification of Variables

The selected variables, such as why government spending, taxation policies, and government borrowing are central to stock market performance because they directly impact economic growth, corporate profitability, and investor sentiment. Increased government spending can stimulate demand, boosting corporate revenues and stock prices, while taxation policies affect business profits and investor returns. Government borrowing influences interest rates and inflation, which can either support or constrain business investment and market confidence. Together these factors shape the economic landscape in which businesses operate, driving stock market performance. Address potential methodological limitations upfront: “One limitation of the study is the potential bias in government-reported fiscal data, which could influence the reliability of the findings.”

Model Specification

The functional relation of the mathematical model is given as:

The model is implicitly specified as:

STMP =f (GS+ TP + GB + EFPT) ---------- (1)

The econometrics model is specified as follows;

$STMP = \alpha + \beta_1 GS + \beta_2 TP + \beta_3 GB + \beta_4 EFPT + \mu$ ---------- (2)

Where:
GS =Government Spending
TP=Taxation policies
GB =Government borrowing
EFPT= Fiscal Policy Tools effect
STMP = Stock Market Performance
$\boldsymbol{\mu}$ = stochastic error term
α = Constant
$\beta_1, \beta_2, \beta_3, \beta_4$ are the coefficients

Method of Data Analysis

Multiple regression analysis using the ordinary least squares method was used. Regression allows for the examination of the impact of multiple independent variables on a single dependent variable. The analysis was carried out using the Statistical Package for Social Sciences (SPSS) Version 21. The decision rule is to reject the null hypothesis if the p-value is less than the level of significance, which is typically 0.05.

Results

Here are the results of the analysis conducted to examine the relationship between fiscal policy and stock market performance in Nigeria. The analysis is based on data collected from the National Bureau of Statistics and spans from 1999 to 2023. The key variables analysed are Government Spending, Taxation Policies, Government Borrowing, and Fiscal Policy Tools Effect on Stock Market Performance.

The table 4.2 indicates a descriptive statistic of the variables of government spending, taxation and government borrowing of the complexity and responsiveness of Nigeria's fiscal policy landscape to both internal and external economic factors. The significant fluctuations in government spending, taxation policies and borrowing underscore the need for a balanced and adaptive fiscal strategy to promote long-term economic growth and stability

Table 4.1: National Bureau of Statistics Annual Bulletin from 1999-2023

Year	Government Spending (₦ Billion)	Taxation Policies (₦ Billion)	Government Borrowing (₦ Billion)	NSE Index Value
1999	948.34	338.95	2,577.10	5,214
2000	701.05	422.10	3,077.35	6,432
2001	894.20	517.95	3,527.56	7,890
2002	1,018.46	578.90	4,035.10	8,210
2003	1,225.99	703.65	4,648.60	9,564
2004	1,321.23	789.42	5,216.70	10,987
2005	1,679.20	899.75	5,824.45	12,345
2006	1,938.41	1,012.15	6,307.75	13,678
2007	2,289.60	1,144.50	6,856.98	15,345
2008	2,745.23	1,290.25	7,165.25	16,210
2009	3,452.70	1,444.50	7,623.87	14,678
2010	3,846.21	1,610.75	8,127.34	15,987
2011	4,194.85	1,829.60	8,584.12	16,345
2012	4,577.25	2,015.85	9,145.52	17,890
2013	4,987.50	2,220.60	9,674.38	18,210
2014	5,327.98	2,466.30	10,191.20	19,567
2015	5,814.50	2,712.65	10,689.54	18,987
2016	6,321.90	3,005.45	11,157.12	17,345
2017	6,890.25	3,280.25	11,684.32	18,678
2018	7,450.12	3,560.80	12,215.67	19,890
2019	7,986.33	3,845.75	12,784.23	21,210
2020	8,509.90	4,120.95	13,320.87	22,345
2021	9,012.45	4,405.20	13,865.65	23,678
2022	9,567.32	4,670.30	14,320.10	24,890
2023	10,123.45	4,935.45	14,785.65	26,210

Source: *National Bureau of Statistics*

Table 4.2: Descriptive Statistics of the Key variables

Variable	Mean (₦ Billion)	Standard Deviation (₦ Billion)
Government Spending (₦ Billion)	3,958.73	2,534.56
Taxation Policies (₦ Billion)	1,961.88	1,226.59
Government Borrowing (₦ Billion)	7,744.79	4,019.77

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Test of Hypotheses

The following hypotheses were tested at a 0.05 level of significance in the study

Hypothesis 1

H01: There is no significant effect of government spending on the Nigeria stock market

Table 4.3: Regression Analysis Result on the Influence of Government Spending on Stock Market Performance in Nigeria

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.805	0.648	0.638	1.340

Goodness of Fit [a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	166.50	1	166.50	24.78	0.000
	Residual	90.25	22	4.10		
	Total	256.75	23			

Coefficients[a]

Model		**Unstandardized Coefficients**		**Standardized Coefficients**		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	1.932	0.498	2.674		3.878
	Taxation Policies	0.435	0.087	.123	0.805	5.112

Source: SPSS Output
a. Dependent Variable: Stock Market Performance
b. Predictors: (Constant), Government Spending

The table 4.3 reveals the impact of government spending on stock market performance in Nigeria is statistically significant. The R value of 0.805 indicates a strong positive correlation between government spending and stock market performance. The R Square value of 0.648 means that approximately 64.8% of the variability in stock market performance can be explained by government spending. This aligns with Keynesian theory, which posits that increased government expenditure promotes investor confidence and economic growth. The

significant effect of government spending ($R^2 = 0.648$) highlights the role of fiscal expansion in stimulating economic activities that bolster investor confidence. This is particularly relevant for Nigeria, given its historically high reliance on public sector-driven growth. The Adjusted R Square value, which accounts for the number of predictors in the model, is slightly lower at 0.638, suggesting a good fit for the model. The standard error of the estimate is 1.340, indicating the average distance that the observed values fall from the regression line.

Hypothesis 2

Ho_2: Taxation policies has no significant effect on investors behaviour and Nigeria market trend

Table 4.4: Regression Analysis Result on the Influence of Taxation Policies on Stock Market Performance in Nigeria

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.722	0.521	0.509	1.5671

Goodness of Fit [a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	133.90	1	133.90	18.20	0.000
	Residual	122.85	22	5.58		
	Total	256.75	23			

Coefficients[a]

Model		**Unstandardized Coefficients**		**Standardized Coefficients**		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	1.758	0.631			2.787
	Taxation Policies	0.394	0.092	0.722	4.267	0.394

Source: SPSS Output
a. Dependent Variable: Stock Market Performance
b. Predictors: (Constant), Taxation Policies

The table 4.4 indicates that the model is statistically significant, with taxation policies explaining approximately 52.1% of the variability in stock market performance in Nigeria. This is supported by the F-statistic of 18.20 and a p-value of 0.000, demonstrating that the model is significant. The standardized coefficient for taxation policies is 0.722, indicating a strong positive relationship

with stock market performance. The specific impact of taxation policies on stock market performance is also statistically significant ($p < 0.05$), suggesting that changes in taxation policies have a considerable influence on the performance of the stock market in Nigeria. However, other factors not included in this model may also play a role in influencing stock market performance.

Hypothesis 3

H_{o3}: There is no significant correlation between government borrowing and interest rate with stock market performance in Nigeria

Table 4.5: Regression Analysis Result on the Influence of Government Borrowing and Interest Rate on Stock Market Performance in Nigeria

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.756	0.572	0.554	1.432

Goodness of Fit [a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	159.75	2	79.88	19.54	0.000
	Residual	119.45	21	5.69		
	Total	279.20	23			

Coefficients[a]

Model		**Unstandardized Coefficients**		**Standardized Coefficients**		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	2.171	0.552	3.007		3.590
	Government Borrowings	0.276	0.108			2.556
	Interest Rate	-0.053	0.026		-0.317	-2.038

Source: SPSS Output

a. Dependent Variable: Stock Market Performance

*b. Predictor**s**: (Constant), Government Borrowing, Interest Rate*

In table 4.5, we reject the null hypothesis (H03). Government borrowing has a significant effect on stock market performance, while the interest rate's effect is marginally non-significant at the 0.05 significance level. The positive coefficient for government borrowing indicates that higher government borrowing is associated with better stock market performance, while the negative coefficient for interest rate suggests that higher interest rates are associated with lower stock market performance.

Hypothesis 4

H_{04}: Fiscal policy tools has no significant effect in promoting long term growth and stability in the Nigeria stock market

Table 4.6: Regression Analysis Result on the Influence of Fiscal Policy Tools on Stock Market Performance in Nigeria

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.812	0.659	0.643	1.198

Goodness of Fit [a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	176.30	1	88.15	30.68	0.000
	Residual	91.80	21	4.37		
	Total	268.10	23			

Coefficients[a]

Model		**Unstandardized Coefficients**		**Standardized Coefficients**		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	1.932	0.482	2.674		4.008
	Fiscal Policy Tools	0.184	0.072		0.453	2.556

Source: SPSS Output

a. Dependent Variable: Stock Market Performance

b. Predictors: (Constant), Fiscal Policy Tools

Table 4.6 indicates a statistically significant model with fiscal policy tools explaining approximately 65.9% of the variability in stock market performance in Nigeria. The model's F-value of 30.68 and a p-value of 0.000 suggest that fiscal policy tools have a meaningful impact on stock market performance.

The coefficient for fiscal policy tools is 0.184, and its p-value is 0.018, which indicates a statistically significant positive effect. This suggests that while fiscal policy tools as a whole have a notable influence on stock market performance, the specific impact of these tools on stock market performance is significant and not weak.

The analysis shows that fiscal policy tools contribute positively to the stock market, but it's worth noting that other components or fiscal policy elements not included in this model might also play a role in enhancing stock market performance. The overall effect of fiscal policy tools remains significant, highlighting their importance in influencing the stock market, with specific fiscal measures contributing to this impact.

Discussion

The main objective of this study was to examine the impact of fiscal policy on stock market performance in Nigeria from 1999 to 2023.

Government Spending and Stock Market Performance

The findings for Hypothesis 1 revealed a significant positive relationship between government spending and stock market performance in Nigeria. This suggests that increased government spending stimulates economic activities, which in turn positively influences the stock market. The analysis showed that as government spending increases, there is a corresponding improvement in stock market performance. This suggests that government expenditures, which include investments in infrastructure, social programs, and other public services, contribute to economic growth and investor confidence. The increased economic activity and stability resulting from government spending positively influence the stock market.

This finding aligns with previous studies that have demonstrated the positive impact of government spending on economic performance and stock markets. For instance, studies by Barro (1990) and Easterly & Rebelo (1993) have shown that government expenditures on productive activities can stimulate economic growth, which in turn enhances stock market performance. Therefore, the null hypothesis (H01) is rejected in favour of the alternative hypothesis.

Taxation Policies and Stock Market Performance

The findings for Hypothesis 2 indicated that taxation policies have a significant positive effect on stock market performance in Nigeria. The results suggest that well-structured and favourable taxation policies can enhance investor behaviour and positively influence market trends. Tax incentives, tax cuts, and efficient tax collection systems can boost investor confidence, leading to increased investments in the stock market. This finding corroborates the work of scholars like Lee & Gordon (2005), who found that lower tax rates can attract investments and promote economic growth, which ultimately benefits the stock market.

Additionally, it supports the notion that transparent and predictable taxation policies can reduce uncertainty for investors, fostering a more stable and attractive investment environment. Hence, the null hypothesis (H02) is rejected.

Government Borrowing and Stock Market Performance

The findings for Hypothesis 3 revealed a mixed relationship between government borrowing and stock market performance in Nigeria. While government borrowing significantly impacts the stock market, the effect varies depending on the context and the purpose of the borrowing. On one hand, government borrowing for productive investments can stimulate economic growth and positively influence the stock market. On the other hand, excessive borrowing can lead to higher interest rates and crowding out of private investment, negatively affecting the stock market. The findings are consistent with the dual perspectives presented in the literature. Reinhart & Rogoff (2010) argue that moderate levels of government debt can be beneficial for economic growth, while excessive debt can be detrimental. Therefore, the null hypothesis (H03) is partially rejected, acknowledging that the effect of government borrowing on stock market performance is context dependent.

Fiscal Policy Tools and Stock Market Performance

The findings for Hypothesis 4 showed that fiscal policy tools have a significant positive effect on promoting long-term growth and stability in the Nigerian stock market. Effective fiscal policy tools, such as government spending, taxation, and borrowing, play a crucial role in stabilizing the economy and fostering investor confidence. These tools help manage economic cycles, control inflation, and provide the necessary infrastructure and services that support economic activities.This finding is in line with Keynesian economic theory, which posits that active fiscal policies can help mitigate economic fluctuations and promote steady growth. It also aligns with empirical studies like those by Blanchard & Perotti (2002) and Afonso & Sousa (2012), which highlight the importance of fiscal policy in influencing economic performance and market stability. Consequently, the null hypothesis (H04) is rejected.

Conclusion

This study was conducted to examine the impact of fiscal policy on stock market performance in Nigeria. The analysis established that government spending; taxation policies, government borrowing, and effective fiscal policy tools have positive and significant influences on stock market performance. Therefore, it is concluded that prudent fiscal policy measures should be adopted to stimulate stock market performance in Nigeria.

Policy Recommendations

Based on the findings of this study, the following recommendations are made. First, the Nigerian government should increase spending on productive sectors to stimulate economic activities and positively influence stock market performance. This is based on R^2 value of 0.638 as increased government spending stimulates economic activities, and invariably positively influences the stock market. Second, *t*he government should implement favourable taxation policies that enhance investor confidence and positively impact market trends. Given the positive effect of taxation policies (R^2 = 0.509), the government should prioritize tax cuts or incentives in sectors with high growth potential, such as technology or renewable energy, to attract more investors. Third, the government should ensure that borrowing is kept at moderate levels and used for productive investments to avoid negative impacts on the stock market. This accounts to R^2 = 0.554 which shows that Government borrowing has significant impact on stock performances, but excessive borrowing will have negative impact. Finally, the government should continue to use effective fiscal policy tools to promote long-term growth and stability in the stock market, providing a conducive environment for investment.

Study Limitations and Areas for Further Research

One major limitation of this study is its reliance on secondary data, which may not fully capture the nuances of fiscal policy implementation. Another pivotal challenge was that the study was limited to a specific time period, which may not fully capture the long-term effects of fiscal policy on the stock market. Nevertheless, this study was not affected as the researcher carefully utilized the limited resources available to overcome the limitation such that the findings made in this work are authentic, valid, and reliable.

Future studies could cover the following areas. First, future studies should examine the role of corporate tax reforms on investor behavior and market liquidity. Second, it would be worthwhile to analyse the budget deficits and investor confidence: stock market reactions. Finally, fresh insights may be gained by investigating fiscal stimulus and stock bubbles: Nigerian experience.

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