FISCAL POLICY COMPOSITION AND STOCK MARKET CAPITALIZATION: EVIDENCE FROM NIGERIA

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Abstract
The paper investigated the responsiveness of the Nigerian stock market capitalization to key fiscal policy instruments: corporate income tax, (CIT), petroleum profit tax (PPT), value added tax (VAT) revenue, government expenditure, and public debt using quarterly time series data from 1996Q1 to 2025Q4.The Autoregressive Distributed Lag (ARDL) Bounds testing approach and Error Correction Model (ECM) were employed to capture both short-run dynamics and long-run effects. In the log-linear specification where fiscal variables are log-transformed and SMC is in levels (percentage points), the study found that CIT has a positive effect on stock market capitalization in both the short and long run, with statistical significance in the short run at the 5% level and in the long run at the 10% level. PPT also has a positive and statistically significant impact on stock market capitalization in both horizons. In contrast, VAT revenue has a negative effect on stock market capitalization, insignificant in the short run but statistically significant in the long run, although a one-period lag of VAT has a positive and significant influence, suggesting an adjustment effect. Government expenditure shows a positive but statistically insignificant relationship with stock market capitalization, while public debt has a negative and highly statistically significant impact in both the short and long run, indicating that rising debt levels constrain capital market development.The study concluded that the composition and management of fiscal instruments, particularly tax revenue and public debtmatter more for stock market development than the mere expansion of government fiscal activity. The study recommended strengthening corporate and petroleum tax administration in a growth-friendly manner, carefully recalibrating VAT to avoid long-run damage to market valuations, reorienting public expenditure toward productivity-enhancing investments, and adopting a more stringent and transparent debt sustainability framework.

Keywords: Government expenditure, public debt stock, stock market capitalization, tax components.

1.0 Introduction

The relationship between fiscal policy and stock market development has attracted increasing attention in financial economic research because government revenue and expenditure decisions can shape macroeconomic stability, investor confidence, and the value of listed securities (Daruwala et al., 2022; Enang et al., 2024). In Nigeria, this relationship is particularly important because the economy has long depended on both oil-related and non-oil fiscal instruments to finance public spending, while the capital market continues to play a key role in mobilizing long-term investment (Nwogo, 2024; Osifo & Abusomwan, 2023). Stock market capitalization (SMC), measured as the share of stock market capitalization to GDP, provides a useful indicator of the depth and performance of the Nigerian capital market, and its movement over time can reflect changes in fiscal conditions, liquidity, and the broader business environment (Izuchukwu, 2024; Daneji et al., 2024).

The trend analysis of the Stock market capitalization (SMC) in figure 1 shows that in was at a relatively high level in 1996, declined steadily into the early 2000s, and then rises strongly from about 2003 onward. A major expansion is visible between 2003 and 2007, followed by a correction around 2008 to 2010, after which SMC resumes an upward trend with intermittent fluctuations. The series reaches another broad improvement phase from 2012 onward, and although it weakens slightly in some later quarters, it remains much higher than in the early years of the sample. In practical terms, this means the Nigerian stock market experienced long-term deepening, but with repeated cyclical adjustments that likely reflect macroeconomic shocks, investor sentiment, and policy changes (Izuchukwu, 2024; Ezewulu & Ugwunna, 2023; Daneji et al., 2024). Also in figure 1 the public debt stock as a share of GDP (PDSGDP) shows an early decline from 1996 to 1997, followed by a sharp rise in the late 1990s and early 2000s. The ratio then fluctuates around the mid-2000s, falls again around 2006 to 2010, and later moves upward, especially from 2014 onward. By 2021 to 2025, PDSGDP stabilizes at a relatively high level, hovering around the low-50s, which suggests a sustained debt burden in the economy.

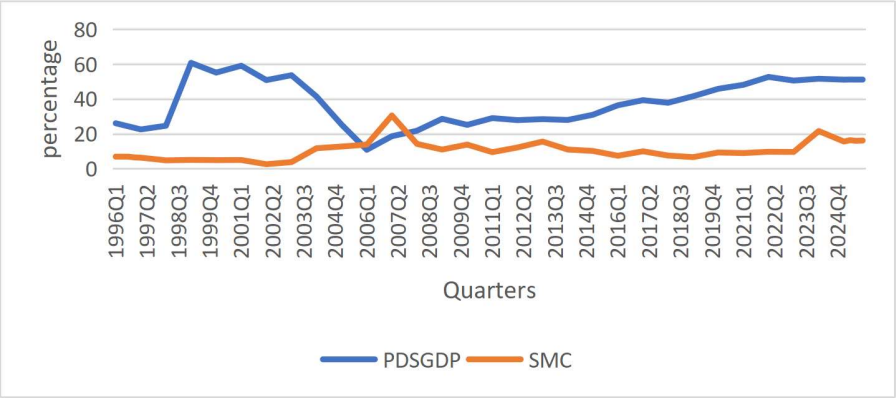


Fig. 1. Trend of PDSGDP and SMC of Nigeria (1996:Q1-2025:Q4)

Figure 2 shows that company income tax (CIT) exhibits an overall upward trend over the period, despite some short-run fluctuations. It starts at a low level in the late 1990s, increases gradually in the early 2000s, and records more pronounced growth after 2010. The sharp rise around 2023 to 2025 suggests stronger corporate tax collection or changes in tax administration and nominal economic expansion. Although there are temporary dips in certain quarters, the long-run

direction is clearly positive, indicating that CIT has become a more important fiscal revenue source over time (Daruwala et al., 2022; Nwogo, 2024; Ihenyen et al., 2025). VAT also follows a strong upward trajectory over the sample period. The series is relatively modest in the 1990s, rises gradually in the early 2000s, and then accelerates markedly from the mid-2010s to the end of the sample. The increase becomes especially noticeable in the 2020s, where VAT remains elevated and reaches its highest levels in the final quarters. This pattern shows widening tax collection from consumption-based transactions and a strengthening of non-oil revenue mobilization (Khadakbhavi & Desai, 2026; Ihenyen et al., 2025; Nurudeen & Ogunbowale, 2025). Compared with the other tax variables, VAT appears to be the most stable and consistently rising revenue stream. PPT is the most erratic variable in the series. It rises sharply in some periods, falls in others, and shows several distinct peaks and troughs across the sample. Early growth is visible in the late 1990s and early 2000s, followed by major swings around 2006 to 2008, 2010 to 2013, and again in the 2020s. This volatility is consistent with petroleum-related fiscal revenue being sensitive to oil market conditions, policy shifts, and sectoral uncertainty (Nwogo, 2024; Otori & Aliu, 2026).

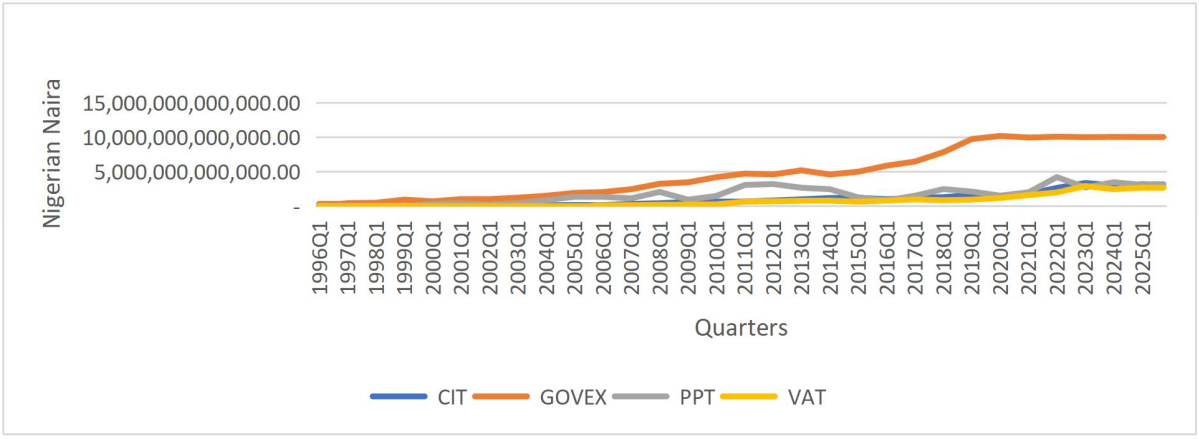


Fig. 2. Trend of CIT, GOVEX, PPT and VAT of Nigeria (1996:Q1- 2025:Q4)

Government expenditure (GOVEX) exhibits the strongest and most sustained upward movement of all the fiscal variables. The trend behaviour of the variables in this study reinforces the relevance of the issue. Figure 1 shows that stock market capitalization did not move in a straight line over the sample period; rather, it experienced periods of decline, recovery, and expansion. This pattern shows that the stock market has been influenced by changing fiscal and macroeconomic conditions rather than by a single stable force. At the same time, government expenditure displayed a strong long-run upward trend, rising much faster than some of the revenue variables. This indicates an expanding role of the public sector in economic activity, which may have implications for private investment and market valuation (Osifo & Abusomwan, 2023; Enang et al., 2024). Company income tax and value added tax also increased over time as shown in Figure 1, pointing to a growing non-oil revenue base, while petroleum profit tax remained more volatile, reflecting the instability of oil-dependent fiscal inflows (Daruwala et al., 2022; Nwogo, 2024). Public debt stock as a share of GDP also moved upward in the later years, suggesting that fiscal financing increasingly relied on borrowing (Adewale & Bank-Ola, 2026). These movements provide a strong basis for examining whether fiscal policy variables are associated with stock market capitalization in Nigeria.

Despite the importance of fiscal policy to economic growth and financial market development, the responsiveness of stock market capitalization to fiscal variables in Nigeria remains insufficiently clarified (Izuchukwu, 2024; Nwogo, 2024). Although the stock market has shown long-run growth in some periods, the trend analysis reveals notable fluctuations that may be linked to changes in taxation, public spending, and debt accumulation (Enang et al., 2024; Adewale & Bank-Ola, 2026). For example, while government expenditure rose persistently over time, stock market capitalization did not rise at the same pace, indicating that higher public spending does not automatically translate into stronger market performance (Osifo & Abusomwan, 2023; Daneji et al., 2024). Similarly, the upward movement in company income tax and value added tax raises the question of whether these tax variables support or constrain stock market capitalization through their effects on corporate profitability, disposable income, and investment incentives (Daruwala et al., 2022; Ihenyen et al., 2025).

The volatility of petroleum profit tax further revealed the problem. Since petroleum-related revenue has historically been an important source of public finance in Nigeria, fluctuations in petroleum profit tax may affect market expectations and fiscal stability (Nwogo, 2024; Otori & Aliu, 2026). In addition, the rising pattern of public debt stock suggests growing fiscal pressure, yet it remains unclear whether higher debt levels stimulate stock market capitalization through increased government spending or weaken it by creating concerns about debt sustainability and future taxation (Adewale & Bank-Ola, 2026; Ezewulu & Ugwunna, 2023). Existing evidence does not provide a clear and consistent answer for Nigeria, particularly when these fiscal variables are examined together in relation to stock market capitalization (Izuchukwu, 2024; Enang et al., 2024). This creates a gap that justified a focused empirical investigation.

The observed trends make these objectives highly relevant. The consistent rise in VAT and CIT suggests that non-oil fiscal instruments have become increasingly important, but their effect on stock market capitalization is not obvious from the trend alone (Daruwala et al., 2022; Khadakbhavi & Desai, 2026). The strong upward trajectory of government expenditure raises the possibility that fiscal expansion may have supported market development, yet the divergence between spending and market capitalization suggests that the relationship may be weak, delayed, or conditional (Osifo & Abusomwan, 2023; Enang et al., 2024). Petroleum profit tax, being volatile, may transmit instability to the market rather than steady support, while the rise in public debt stock raises concerns about fiscal sustainability and crowding-out effects (Adewale & Bank-Ola, 2026; Nwogo, 2024).

Seeing the behaviour of these variables overtime vice versa SMC is not actually cleared, the study investigated: the responsiveness of stock market capitalization to company income tax in Nigeria; the responsiveness of stock market capitalization to petroleum profit tax in Nigeria. the responsiveness of stock market capitalization to value added tax in Nigeria; the responsiveness of stock market capitalization to government expenditure in Nigeria; and the responsiveness of stock market capitalization to public debt stock in Nigeria.

2.0 Literature review

Stock market capitalization refers to the total market value of all listed shares in a stock market and is commonly used to measure the size and depth of a country's equity market (El Wassal, 2013). It is calculated by aggregating the market values of all publicly listed companies, which means it reflects investors' current valuation of firms rather than their book values (El Wassal, 2013). In conceptual terms, stock market capitalization is important because it serves as an

indicator of financial market development, investor confidence, and the ability of the capital market to mobilize savings for productive investment (Osinubi & Amaghionyeodiwe, 2003). Suleiman and Ugah (2023) states that the stock market creates an atmosphere where lenders and borrowers meet to access and mobilize long-term funds from investors, including foreign investors for a country's development. Hence, the study captured it as stock market capitalization as a share of GDP.

Fiscal Shocks and Fiscal Composition

Fiscal policy shocks refer to unexpected changes in government spending or taxation that affect aggregate demand, output, inflation, and private sector behavior (Mountford & Uhlig, 2009). In conceptual terms, they are unanticipated fiscal disturbances that move the economy away from its normal path and are often studied to understand how government actions influence macroeconomic stability, growth, and welfare. These shocks are usually discussed in terms of spending shocks and revenue or tax shocks: a spending shock occurs when government expenditure rises unexpectedly, while a revenue shock occurs when taxes or government receipts change unexpectedly without an immediate matching change in spending (Mountford & Uhlig, 2009). The term "fiscal policy composition" is used throughout the study to describe the structure and mix of these fiscal instruments rather than unexpected fiscal disturbances.

The study conceptualizes fiscal composition as the combination and relative contributions of different revenue sources (CIT, PPT, VAT), public spending patterns (GOVEX), and financing mechanisms (public debt) that together shape the fiscal environment in which capital market participants operate. This composition matters because different fiscal instruments have distinct transmission channels to corporate profitability, investor confidence, and ultimately stock market valuation (Daruwala et al., 2022; Nwogo, 2024; Ihenyen et al., 2025).

Theoretical Literature Review

Keynesians are macroeconomists who views about functioning of John Maynard Keynes. The Keynesian believe in increased level of government intervention in the economy, especially through budget deficits and fiscal policy in the management of aggregate demand in attempt to achieve macroeconomic stability (Powel, 2002).The theory posits that government expenditure, taxation, and public debt influence aggregate demand, which in turn affects corporate profits, investment, and ultimately stock market valuations.

The Keynesian theory was propounded by John Maynard Keynes, a British economist in 1936. Keynes regard the economy as being inherently instable and as requiring active government intervention to achieve stability. According to Keynesians, government expansionary or contractionary fiscal policy strategy would influence stock prices, which would then affect the stock market performance.

In particular Keynesian recommends that when output is below its full employment level government should raise expenditure, or cut taxes or raise government expenditure and cut taxes together. Thus, the reverse should be the case when output is above full employment level. Hence, fiscal policy measures influence investor confidence and the stock market.

The responsiveness of stock market performance indicates to fiscal policy stock comes through the channel of fiscal actions as the imposition of certain tax components, government spending, debt and budget deficit.

Empirical Literature

Empirical studies have increasingly examined the relationship between fiscal policy and stock market performance, with mixed results across countries, periods, and methodological approaches. Daruwala et al. (2022) investigated the effect of changes in statutory corporate income tax rates on stock market returns using panel data from developed economies such as Japan, the United States, and Italy, and developing economies such as South Africa, Malaysia, and India between 1990 and 2010, and found that tax cuts had a significant positive effect on stock market returns, with developed economies responding more strongly, while tax hikes did not produce a significant adverse effect.

Similarly, Khadakbhavi and Desai (2026) examined the effect of value added tax reforms on the Indian equity market using a two-phased event study approach covering 819 listed firms over 271 trading days showed that the initial GST implementation generated negative abnormal returns, whereas later reforms produced positive abnormal returns. In the Nigerian economy, Izuchukwu (2024) examined the response of stock market capitalization to fiscal policy variations using data from the Central Bank of Nigeria and an OLS framework. The study found that fiscal policy had no significant effect on stock market variables, implying that stock market capitalization did not respond meaningfully to fiscal policy measures during the period studied.

On the other hand, Nwogo (2024) reported a mixed but significant relationship between fiscal policy variables and stock market performance in Nigeria. Using cointegration analysis, the study found that government capital expenditure and recurrent expenditure had significant positive effects on stock market performance, while company income tax and petroleum profit tax had significant negative effects. Osifo and Abusomwan (2023) examined government expenditure on key sectors of the economy and stock market performance, finding that expenditure on education, defense, and agriculture significantly influenced stock market performance in the long run. Likewise, Enang, Ele, and Itoro (2024) found that government spending, taxation policies, and government borrowing all significantly influenced stock market performance in Nigeria, although excessive borrowing was associated with crowding-out effects. These results suggest that the stock market may respond positively to expansionary fiscal actions, but negatively when borrowing becomes excessive or taxation is perceived as burdensome.

Studies on public debt also provide useful evidence. Adewale and Bank-Ola (2026) found that domestic debt had a negative effect on stock market performance in both the short and long run, while external debt had a positive long-run influence. Ezewulu and Ugwunna (2023) studied five selected African countries and found that monetary and fiscal policies had long-run equilibrium relationships with stock market capitalization, while short-run effects were largely insignificant. Similarly, Daneji et al. (2024) reported a long-run relationship between monetary and fiscal policies and market capitalization in Nigeria.

A related strand of literature focuses on tax incentives and corporate outcomes rather than market-level capitalization. Ihenyen et al. (2025) found that current tax liabilities negatively affected shareholder wealth maximization, while deferred tax liabilities had a positive effect. Nurudeen and Ogunbowale (2025) also reported that investment tax allowance positively affected financial performance, while other tax incentives were insignificant. Otori and Aliu (2026) found that petroleum tax incentives, gas utilization incentives, and investment allowances significantly improved financial performance in Nigerian oil and gas firms. Although these studies do not directly analyze stock market capitalization, they reinforce the idea that tax policy

shapes firm profitability, which can eventually influence equity valuation and market performance.

The conflicting evidence from Nigerian studies suggests that the relationship between fiscal policy and stock market capitalization is not straightforward. Several factors explain these contradictions, studies using OLS may fail to capture long-run dynamics that cointegration methods reveal (Ezewulu & Ugwunna, 2023); other studies that aggregate fiscal variables may mask differential effects of specific tax instruments (Nwogo, 2024); finally, studies that omit monetary conditions, institutional quality, or macroeconomic stability may produce biased estimates (Osifo & Abusomwan, 2023).

Given these conflicting findings and methodological limitations, the present study employs the ARDL bounds testing approach for several reasons. First, the ARDL approach is appropriate when variables are integrated of mixed order I(0) and I(1) which the unit root tests in Section 4.1.3 confirm. This flexibility is crucial because previous Nigerian studies have not consistently established the stationarity properties of fiscal variables, and imposing a uniform integration order may produce misleading results.

Second, the ARDL framework simultaneously captures short-run dynamics and long-run equilibrium relationships, addressing the finding that some fiscal variables (like government expenditure) may have different effects in the short versus long run (Osifo & Abusomwan, 2023; Adewale & Bank-Ola, 2026). Third, the error correction mechanism in ARDL allows estimation of the speed of adjustment to long-run equilibrium, which is important for understanding how quickly stock market capitalization responds to fiscal policy changes a dimension absent in most previous Nigerian studies. Finally, unlike the OLS framework used by Izuchukwu (2024), ARDL handles the endogeneity concerns that may arise from the simultaneous determination of fiscal variables and stock market performance, providing more reliable coefficient estimates.

Research Gap

While several studies have examined the relationship between fiscal policy and stock market performance, most existing literature focuses on broad fiscal aggregates such as total government revenue, total government expenditure, or overall budget deficits (Izuchukwu, 2024; Nwogo, 2024). This aggregation masks important differential effects that specific tax instruments have on market outcomes. The theoretical advantage of disaggregation is grounded in the differential transmission mechanisms of various fiscal instruments. Corporate income tax directly affects firm-level profitability and investment decisions, petroleum profit tax influences a sector that constitutes a significant portion of Nigeria's economic activity and market capitalization, while value added tax operates through consumption channels affecting aggregate demand and disposable income (Daruwala et al., 2022; Ihenyen et al., 2025).

Empirically, the trend analysis in Figure 2 reveals that these fiscal variables have exhibited distinct patterns over time: CIT and VAT show steady upward trends while PPT remains highly volatile, suggesting that their effects on stock market capitalization are unlikely to be homogeneous. This differential behavior provides a strong empirical rationale for disaggregation. Furthermore, from a policy perspective, understanding the distinct responsiveness of stock market capitalization to each fiscal instrument is essential because policy interventions can be more precisely targeted. For instance, if VAT has a negative effect while CIT has a positive effect on market capitalization, policymakers can design tax reforms that minimize adverse

impacts while maximizing positive contributions to capital market development (Khadakbhavi & Desai, 2026; Nurudeen & Ogunbowale, 2025)

3.0 Methodology

The study adopted the ex-post facto research design in investigating the influence of fiscal policy shocks such as CIT, PPT, VAT, government expenditure and public debt stock on capital market capitalization in Nigeria. The logic of the expost facto research design is that the data used for the study were already collated and are available in reputable databases by reputable statistical authorities.

The model is anchored on Keynesian theory, which emphasizes the importance of aggregate demand, government intervention, monetary conditions, and macroeconomic stability in influencing economic performance. The functional specification of the study's model is as follows:

$SMC = f(CIT, PPT, VAT, GOVEX, PSDGDP, M2GDP, INS, LR, EXR, RGDPGR)$ 1

Where:

SMC = Stock market capitalization. Captured by the share of stock market capitalization to GDP. Measured in percentage.

CIT = Company income tax. Measured in Nigerian Naira.

PPT = Petroleum profit tax. Measured in Nigerian Naira.

VAT = Value added tax. Measured in Nigerian Naira.

GOVEX = Government expenditure. Measured in Nigerian Naira.

PSDGDP = Public debt stock share of GDP (in percentage.

M2GDP = Broad money supply share of GDP. Measured in percentage.

INS = Institutional quality.

LR = Lending rate (percentage).

EXR = Exchange rate

RGDPGR = real GDP growth rate proxy for economic growth.

The mathematical form of the model is specified as:

$$SMC_t = \alpha_0 + \alpha_1 CIT_t + \alpha_2 PPT_t + \alpha_3 VAT_t + \alpha_4 GOVEX_t + \alpha_5 PDSGDP_t + \alpha_6 RM2GDP_t + \alpha_7 INS + \alpha_8 LR_t + \alpha_9 EXR + \alpha_{10} RGDPGR_t + \mathcal{E}_t \quad \ldots\ldots 2$$

To address heteroskedasticity and facilitate the interpretation of elasticities, all fiscal variables measured in monetary units (CIT, PPT, VAT, GOVEX) were transformed using natural logarithms. The log-linear form is specified as:

$$SMC_t = \alpha_0 + \alpha_1 logCIT_t + \alpha_2 logPPT_t + \alpha_3 logVAT_t + \alpha_4 logGOVEX_t + \alpha_5 PDSGDP_t + \alpha_6 RM2GDP_t + \alpha_7 INS + \alpha_8 LR_t + \alpha_9 EXR + \alpha_{10} RGDPGR_t + \mathcal{E}_t \quad \ldots\ldots 3$$

Here, the fiscal variables CIT, PPT, VAT, and GOVEX are log-transformed**.** This is a log-linear model where the dependent variable is in levels (percentage points), and the independent variables are in natural logarithms. Therefore, the coefficients on log-transformed variables represent the change in SMC (in percentage points) for a 1% change in the respective independent variable, holding other factors constant which will be used in interpreting the short run ARDL result.

The ARDL(p,q_1,q_2,q_3,q_4,q_5,q_6,q_7,q_8,q_9,q_{10}) specification, incorporating lagged dependent and independent variables, is:

$$\Delta SMC_t = \beta_O + \sum_{i=1}^{P} \beta_1 \Delta SMC_{t-1} + \sum_{i=0}^{p} \beta_2 \Delta lnCIT_{t-1} + \sum_{i=0}^{p} \beta_3 \Delta lnPPT_{t-1} + \sum_{i=0}^{p} \beta_4 \Delta lnVAT_{t-1} + \sum_{i=0}^{p} \beta_5 \Delta lnGOVEX_{t-1} + \sum_{i=0}^{p} \beta_6 \Delta PDSGDP_{t-1} + \sum_{i=0}^{p} \beta_7 \Delta M2GDP_{t-1} + \sum_{i=0}^{p} \beta_8 \Delta INS_{t-1} + \sum_{i=0}^{p} \beta_9 \Delta LR_{t-1} + \sum_{i=0}^{p} \beta_{10} \Delta EXR_{t-1} + \sum_{i=0}^{p} \beta_{11} \Delta RGDPGR_{t-1} + \lambda_1 SMC_{t-1} + \lambda_2 lnCIT_{t-1} + \lambda_3 lnPPT_{t-1} + \lambda_4 lnVAT_{t-1} + \lambda_5 lnGOVEX_{t-1} + \lambda_6 PDSGDP_{t-1} + \lambda_7 M2GDP_{t-1} + \lambda_8 INS_{t-1} + \lambda_9 LR_{t-1} + \lambda_{10} EXR_{t-1} + \lambda_{11} RGDPGR_{t-1} + \varepsilon_t \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots iv$$

Where p represents the lag order of the dependent variable and q_1 to q_{10} represent the lag orders of the explanatory variables. The ARDL lag structure selected by Akaike Information Criterion (AIC) is [3, 1, 1, 1, 1, 0, 1, 0, 1, 0, 0] based on the optimal lags reported in Table 5.

Theoretical Justification and Expectations of Variables

From the Keynesian perspective, fiscal policy and liquidity conditions can stimulate investment, output, and business profitability, all of which are expected to affect stock market capitalization. Since the stock market reflects expectations about firms' future earnings and the overall performance of the economy, changes in taxation, public expenditure, debt, money supply, and interest rates are expected to transmit to the market through demand and confidence channels.

Tax variables such as CIT, PPT, and VAT are expected to influence SMC through their effects on disposable income, corporate profitability, and investment incentives. Government expenditure is expected to positively support SMC when it is directed toward productive uses that raise aggregate demand and stimulate economic activity. Conversely, government borrowing can finance productive public investment, stimulate aggregate demand, and support economic growth through the multiplier effect, which could have positive spillover effects on corporate profits and stock market valuations (Osifo & Abusomwan, 2023). Hence, the sign of PDSGDP is expected to be negative if the crowding-out and debt sustainability concerns dominate, or positive if the expansionary effects of debt-financed expenditure are stronger

The model also introduces broad money supply, institutional quality, lending rate, exchange rate and GDP growth as control variables which is grounded in the Keynesian theoretical framework and emphasizes the interconnectedness of fiscal policy, monetary conditions, and macroeconomic stability in influencing economic performance and investor behaviour.

From a Keynesian perspective, money supply affects aggregate demand through the liquidity preference theory. Greater money supply reduces interest rates, stimulates investment, and increases liquidity in the financial system, which can encourage portfolio reallocation toward equities (Keynes, 1936). When money supply expands, investors may shift from less liquid assets to stocks, thereby increasing stock market capitalization (Ezewulu & Ugwunna, 2023). This positive expected relationship reflects the role of monetary conditions in complementing fiscal policy in influencing capital market development. Also, Keynesian theory implicitly

recognizes the importance of institutional frameworks in transmitting fiscal and monetary policies to the real economy. High-quality institutions enhance policy credibility, reduce uncertainty, strengthen investor confidence, and ensure the effective implementation of fiscal measures (Suleiman & Ugah, 2023). Better institutional quality is expected to positively influence stock market capitalization by fostering a predictable business environment, protecting property rights, and reducing transaction costs associated with investment.

Within the Keynesian framework, interest rates are a crucial transmission channel through which monetary and fiscal policies affect investment. Higher lending rates increase the cost of borrowing, reducing corporate investment and consumer spending, thereby dampening corporate earnings and stock valuations (Nwogo, 2024). Exchange rate movements affect stock market capitalization through several channels. Depreciation of the domestic currency can have negative effects by increasing the cost of imported inputs, raising production costs, and exerting inflationary pressures. It can also increase the naira value of foreign-currency-denominated debt servicing obligations (Osifo & Abusomwan, 2023). Finally, Keynesian theory posits that economic growth reflects the expansion of aggregate demand and productive capacity, which supports higher corporate profits and investor confidence (Powell, 2002). Positive economic growth is expected to increase stock market capitalization by signaling favorable business conditions, rising employment, and increasing disposable incomes that can be channeled into equity investments. This positive relationship captures the role of overall macroeconomic performance in complementing fiscal policy in driving capital market development

Data Sources and Collection

The data used for this study were basically secondary data which are quarterly time series data taking the time scope from 1996:Q1 to 2025:Q4. The data were collated from different statistical and reputable databases. The World development indicators database (2025) provided the annual time series data while the quarterly time series were extracted with the use of Eview software.

Estimation Techniques

The estimation method and procedure involved running a preliminary test on the time series data to test for the stationarity of the data or variables. The results of the unit root test were used as the criterion of choosing the appropriate estimation method for the study's model which is he Autoregressive Distributed Lag (ARDL) bounds testing approach developed by Pesaran et al. (2001), which permits the estimation of long-run relationships among variables that are integrated of order zero, order one, or a combination of both, provided that no variable is integrated beyond the first order.

Hypotheses Formulation

Based on the theoretical framework and empirical literature, the following hypotheses were formulated to guide the empirical analysis:

H_{01}: Company income tax (CIT) has no significant effect on stock market capitalization in Nigeria.

H_{02}: Petroleum profit tax (PPT) has no significant effect on stock market capitalization in Nigeria.

H_{03}: Value added tax (VAT) has no significant effect on stock market capitalization in Nigeria.

H_{04}: Government expenditure (GOVEX) has no significant effect on stock market capitalization in Nigeria.

H_{05}: Public debt stock to GDP (PDSGDP) has no significant effect on stock market capitalization in Nigeria.

4.0 Results Presentation and Analysis

Table 2 presents the descriptive statistics for the variables employed in the study over the period 1996:Q1 to 2025:Q4, comprising 120 quarterly observations for each variable. The results show that stock market capitalization (SMC) has an average value of 10.46%, with a median of 9.57%, indicating that the average level of stock market capitalization slightly exceeds the median during the study period.

Table 2:
Descriptive Statistics of the Study's Variables; 1996: Q1-2025:Q4

	SMC (%)	*CIT (Nbillion)*	*PPT (Nbillion)*	*VAT (Nbillion)*	*GOVEX (Nbillion)*	*PDSGDP (%)*	*EXR (N= $1*	*INS (index)*	*LR (%)*	*M2GDP (%)*	*RGDPGR (%)*
Mean	10.4582	976	1,620	748	4,760	37.76	291.07	0.07	17.15	20.09	4.45
Median	9.5723	665	1,490	599	4,590	37.83	153.42	0.42	16.90	23.17	4.21
Maximum	30.5090	3,350	4,210	2,920	10,200	60.77	1478.97	1.80	24.77	27.38	15.33
Minimum	2.4975	23.1	24.6	11.3	337	10.78	21.88	-2.87	11.48	9.06	-6.37
Std. Dev.	5.1676	999	1,110	849	3,530	13.00	350.57	1.27	2.96	5.99	3.47
Skewness	1.16	1.09	0.22	1.25	0.39	-0.01	2.40	-0.71	0.40	-0.56	-0.09
Kurtosis	4.93	3.12	1.94	3.42	1.70	1.74	7.75	2.31	3.06	1.59	4.07
Jarque-Bera	45.48	23.91	6.51	31.89	11.47	7.95	227.83	12.56	3.27	16.21	5.90
Probability	0.00	0.00	0.04	0.00	0.00	0.02	0.00	0.00	0.19	0.00	0.05
Observations	120	120	120	120	120	120	120	120	120	120	120

Source: Authors' Computation, 2026.

The maximum and minimum values of 30.51% and 2.50%, respectively, reveal considerable fluctuations in the size of the Nigerian stock market over time. The standard deviation of 5.17 indicates moderate variability in SMC. The positive skewness coefficient (1.16) suggests that the distribution is skewed to the right, implying that periods of exceptionally high stock market capitalization occurred more frequently than unusually low values. The kurtosis value of 4.93, which exceeds the benchmark value of three, indicates a leptokurtic distribution characterized by a relatively high peak and heavier tails than the normal distribution. Furthermore, the Jarque-Bera statistic of 45.48 with a probability value of 0.0001 indicates that SMC is not normally distributed.

Company Income Tax (CIT) has an average quarterly revenue of ₦976 billion, with values ranging from ₦23.1 billion to ₦3,350 billion, reflecting the substantial growth in corporate tax revenue over the study period. The distribution is positively skewed (1.09), suggesting that exceptionally high tax revenues occurred more frequently than exceptionally low values. The kurtosis value of 3.12 is slightly above the normal benchmark, indicating a mildly leptokurtic distribution. The Jarque-Bera probability of 0.0001 rejects the null hypothesis of normality.

Petroleum profit tax (PPT) has a mean value of ₦1,620 billion and a median of ₦1,490 billion, indicating that petroleum tax revenue remained relatively high throughout the sample period. The maximum value of ₦4,210 billion and minimum value of ₦24.6 billion demonstrate substantial fluctuations in petroleum tax revenue, reflecting changes in international oil prices

and domestic oil production. The skewness coefficient of 0.22 indicates a nearly symmetric distribution, while the kurtosis value of 1.94 suggests a platykurtic distribution with lighter tails than the normal distribution. The Jarque–Bera probability of 0.04 indicates that PPT departs from normality at the 5% significance level.

Value added tax (VAT) has an average quarterly revenue of ₦748 billion, with values ranging between ₦11.3 billion and ₦2,920 billion. The relatively high standard deviation of ₦849 billion indicates substantial dispersion in VAT collections over time. The distribution is positively skewed (1.25), implying that higher VAT revenues occurred more frequently than lower values. The kurtosis value of 3.42 indicates a slightly leptokurtic distribution. The Jarque-Bera test is statistically significant (p = 0.0001), confirming that VAT is not normally distributed.

Government expenditure (GOVEX) averaged ₦4,760 billion during the study period, with a minimum of ₦337 billion and a maximum of ₦10,200 billion, reflecting the substantial expansion of government spending over the years. The standard deviation of ₦3,530 billion indicates considerable variability in fiscal expenditure. The positive skewness coefficient (0.39) suggests a moderate right-skewed distribution, while the kurtosis value of 1.70 indicates a platykurtic distribution. The Jarque–Bera statistic rejects the null hypothesis of normality (p = 0.0001).

The public debt-to-GDP ratio (PDSGDP) recorded an average of 37.76%, with values ranging from 10.78% to 60.77%, indicating a substantial increase in Nigeria's debt burden during the study period. The standard deviation of 13.00 suggests moderate variability. The skewness coefficient of -0.01 indicates an almost perfectly symmetric distribution, while the kurtosis value of 1.74 suggests a platykurtic distribution. However, the Jarque–Bera probability of 0.02 indicates that the distribution significantly deviates from normality.

Correlation Analysis

Table 3 presents the Pearson correlation coefficients among SMC, tax revenue and fiscal policy variables. The results indicate that SMC is positively correlated with most of the explanatory variables. Specifically, Log(CIT)) has a moderate positive correlation with SMC (r = 0.4291), revealing that increases in CIT revenue are associated with increases in SMC. Likewise, Log(PPT) exhibits a stronger positive correlation with SMC (r = 0.5405), implying that higher petroleum tax revenue tends to coincide with improved SMC. Log(VAT)) is also positively related to SMC (r = 0.3939), while Log(GOVEX) has a similar moderate positive association (r = 0.3994). These positive relationships show that improvements in tax revenue and government fiscal activities are generally associated with better stock market performance.In contrast, Public debt-to-GDP (PDSGDP) has a moderate negative correlation with SMC (r = -0.4244), revealing that rising public debt is associated with a decline in SMC.

Table 3:
Correlation Matrix Of The Study's Variables; 1996: Q1-2025:Q4

	SMC	Log (CIT)	Log (PPT)	Log (VAT)	Log (GOVEX)	PDS GDP	EXR	INS	LR	M2 GDP	RGDPGR
SMC	1										
Log(CIT)	0.4291	1									
Log(PPT)	0.5405	0.8897	1								
Log(VAT)	0.3939	0.9928	0.8880	1							
Log(GOVEX)	0.3994	0.9874	0.8948	0.9845	1						
PDSGDP	-0.4244	0.1183	-0.0063	0.1622	0.1314	1					
EXR	0.3960	0.6348	0.4733	0.6498	0.5940	0.4254	1				
INS	0.4726	0.8092	0.6237	0.7818	0.8055	-0.2062	0.4727	1			
LR	-0.4914	-0.7853	-0.6393	-0.7854	-0.7864	0.0787	-0.5812	-0.7814	1		
M2GDP	0.3393	0.9326	0.7967	0.9187	0.9220	0.1095	0.4999	0.8413	-0.6836	1	
RGPGR	0.1108	-0.3167	-0.0459	-0.3425	-0.3716	-0.1362	-0.2074	-0.5799	0.5336	-0.3702	1

Source: Authors' Computation, 2026.

The correlation matrix in Table 3 reveals extremely high bivariate correlations among fiscal variables, particularly between Log(CIT) and Log(VAT) (0.9928), Log(CIT) and Log(GOVEX) (0.9874), and Log(VAT) and Log(GOVEX) (0.9845). These correlations exceed conventional thresholds for multicollinearity concerns (typically > 0.80 or 0.90), indicating that the fiscal variables move closely together over time, likely reflecting common trends in Nigeria's fiscal system such as overall fiscal expansion, nominal growth, and inflation.

To formally address multicollinearity, the study explicitly acknowledges that the high correlations reflect the co-movement of fiscal variables in Nigeria's economy and interprets the results cautiously, focusing on the sign and statistical significance of coefficients while remaining mindful of imprecision in individual point estimates.

Unit Root Test Results

Table 4:
Summarized Result of the Unitroot Test, 1996: Q1-2025:Q4

Variable	PP Level	PP 1st Diff.	ADF Level	ADF 1st Diff.	KPSS Level	KPSS 1st Diff.	Order of Integration
SMC	-1.3437	-3.7146***	-2.4554	-2.6889*	0.2803	0.0661	I(1)
log(CIT)	-2.2363	-4.1825***	-2.0448	-3.4199**	1.2581***	0.4202*	I(1)
log(PPT)	-2.2096	-5.0691***	-5.7668***	-4.7336***	0.9609***	0.2064	I(0)/I(1)
log(VAT)	-2.0533	-4.0142***	-1.9849	-3.4284**	1.2692***	0.3402	I(1)
log(GOVEX)	-3.9249***	-4.6354***	-2.8182*	-2.0809	1.2568***	1.7218***	Mixed (Mostly I(0))
PDSGDP	-1.6859	-3.6500***	-2.7002*	-1.9888	0.2395	0.0897	I(1)
EXR	1.3671	-3.5989***	2.6774	-0.0446	0.8154***	0.3963*	I(1)
INS	-1.1516	-3.6141***	-1.6307	-2.4575	0.9241***	0.0788	I(1)
LR	-1.2381	-3.7587***	-1.5839	-2.7495*	0.9443***	0.0542	I(1)

M2GDP	-1.6376	-3.8840***	-1.7157	-2.4125	1.1169***	0.1094	I(1)
RGPGR	-1.8199	-3.5670***	-2.5274	-2.8118*	0.4664**	0.1233	I(1)

, **, and * denote significance at the 10%, 5%, and 1% levels, respectively.*

Source: Authors' Computation, 2026.

Table 4 presents the results of the Phillips–Perron (PP), Augmented Dickey–Fuller (ADF), and Kwiatkowski–Phillips–Schmidt–Shin (KPSS) unit root tests conducted to determine the stationarity properties of the variables included in the study. While the PP and ADF tests have the null hypothesis of a unit root (non-stationarity), the KPSS test assumes the null hypothesis of stationarity. The unit root results indicate that the variables exhibit a mixed order of integration, with log(GOVEX)) being predominantly stationary at level I(0), log(PPT)) displaying mixed evidence between I(0) and I(1), and the remaining variables including SMC, CIT, VAT, PDSGDP, EXR, INS, LR, M2GDP, and RGDPGR, being integrated of order one I(1). Importantly, none of the variables is integrated of order two, I(2). This finding satisfied the principal requirement for the application of the Autoregressive Distributed Lag (ARDL) bounds testing approach.

Analysis of the Results of the Estimated Model

The study used VAR lag order selection criteria to determine the lag length for the ARDL estimation. The results are shown in Table 5. The Akaike Information Criteria (AIC), Schwarz Information Criterion (SC), and Hannan-Quinn Information Criterion (HQ) all indicate that the optimal lag length **is** two (2) lags, as marked by asterisks (*) in the table.

Table 5:
Optimal Lag Selection Results

VAR Lag Order Selection Criteria

Endogenous variables: SMC LOG(CIT) LOG(PPT) LOG(VAT) LOG(GOVEX) PDSGDP EXR INS LR M2GDP RGPGR

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-2411.6	NA	38261.04	41.7688	42.03	41.8748
1	-217.59	3934.07	1.16E-11	6.02746	9.16086	7.29944
2	197.672	665.8548*	7.63e-14*	0.953939*	6.959614*	3.391900*
3	237.954	56.9504	3.52E-13	2.34563	11.2236	5.94957
4	305.528	82.7203	1.16E-12	3.26676	15.017	8.03669

** indicates lag order selected by the criterion*
LR: sequential modified LR test statistic (each test at 5% level)
FPE: Final prediction error
AIC: Akaike information criterion
SC: Schwarz information criterion
HQ: Hannan-Quinn information criterion

Source: Authors' Computation, 2026.

The AIC, SC, and HQ statistics are lowest at lag 2, and both the LR test statistic and Final Prediction Error (FPE) also select lag 2. The basis for choosing the final ARDL lag structure is the AIC criterion, which selected ARDL(3,1,1,1,1,0,1,0,1,0,0). This specification ensures all relevant short-run dynamics are captured while maintaining model parsimony. The maximum lag length was set at p = 2 for all variables to preserve degrees of freedom.

Analysis of the Cointegration Test (Bounds) Result

The ARDL Bounds test resultsin Table 6 provide strong evidence of a long-run equilibrium relationship between stock market capitalization (SMC) and its explanatory variables. Specifically, the computed F-Bounds statistic of 7.7457 exceeds both the lower bound critical value of 2.06 and the upper bound critical value of 3.24 at the 5% significance level. Since the calculated F-statistic is greater than the upper bound critical value, the null hypothesis of no levels (long-run) relationship is rejected. This indicates that stock market capitalization and company income tax, petroleum profit tax, value added tax, government expenditure, public debt-to-GDP ratio, exchange rate, institutional quality, lending rate, money supply (M2GDP), and real GDP growth are cointegrated and move together over the long run despite possible short-run fluctuations.

Table 6:

Bound Test Results For Long Run Relationships Among The Variables In Model

Test	*Statistic*	*Critical Value I(0)*	*Critical Value I(1)*	*Decision*
F-Bounds Test (5%)	7.7457	2.06	3.24	Cointegration exists
t-Bounds Test (5%)	-6.6434	-2.86	-5.03	Cointegration confirmed

Source: Authors' Computation, 2026.

The t-Bounds test further reinforces this conclusion. The computed t-statistic of -6.6434 is more negative than the upper bound critical value of -5.03 at the 5% significance level. Consequently, the null hypothesis of no long-run relationship is also rejected based on the t-Bounds test. The agreement between the F-Bounds and t-Bounds tests provides robust confirmation that a stable long-run equilibrium relationship exists among the variables included in the model.

ARDL Error Correction Results of the Study's Model

The short-run error correction model in Table 7 reveals that the error correction term (ECT(-1)) has a coefficient of -0.2087 and is statistically significant at the 1% level (p = 0.0000). The negative and significant coefficient confirms the existence of a stable long-run equilibrium relationship between stock market capitalization and its determinants. Specifically, approximately 20.87% of any short-run deviation from the long-run equilibrium is corrected each quarter, implying that the Nigerian stock market requires approximately 4.8 quarters (about 1.2 years) to fully adjust to shocks.

The short run coefficient of company income tax (log(CIT)) is 11.4248 and statistically significant at the 1% level (p = 0.0001) in the short run. This shows that a 1% increase in CIT revenue is associated with an increase of approximately 11.42 percentage points in SMC (as a percentage of GDP) in the short run, holding other factors constant. The positive relationship shows that higher corporate tax revenue may reflect improved corporate profitability, stronger business activity, and enhanced investor confidence, all of which stimulate market capitalization. The long-run estimates show that Log(CIT)) positively influences SMC, with a coefficient of 6.6189, significant at the 10% level (p = 0.0575). This shows that a sustained 1% increase in CIT revenue increases SMC by approximately 6.62% in the long run. The result implies that

improved corporate tax performance reflects stronger corporate earnings, enhanced profitability, and greater investor confidence, all of which contribute to long-term stock market expansion.

Table 7:
Summary of ARDL Short-Run and Long-Run Estimates

Dependent variable: SMC				
Variable	Short-run coefficient	p-value	Long-Run Coefficient	p-value
LOG(CIT)	11.4248	0.0001	6.6189	0.0575
LOG(PPT)	0.7272	0.0016	3.4842	0.0001
LOG(VAT)	-3.0018	0.1738	-5.2458	0.0337
DLOG(VAT(-1))	3.9409	0.059	–	–
LOG(GOVEX)	0.014	0.9838	0.067	0.9775
PDSGDP	-0.0880	0.0001	-0.4217	0.0001
EXR	0.0217	0.0001	0.0154	0.0001
D(EXR(-1))	-0.0085	0.0079	–	–
INS	-1.7217	0.0222	-2.6067	0.1325
LR	0.2095	0.0059	1.0036	0.0112
M2GDP	0.3246	0.0538	-0.2741	0.298
RGPGR	-0.1831	0.0117	-0.8771	0.0193
ECT(-1)	-0.2087	0.0001	–	–
Diagnostic test results				
Adjusted R-squared	0.9809	Durbin Watson statistics		2.1242
F-statistics (Probability value)	318.0453	F-statistics Probability value		0.0001

Source: Authors' Computation, 2026.

Similarly, petroleum profit tax (log(PPT)) has a positive and statistically significant influence on SMC, with a short run coefficient of 0.7272 (p = 0.0016). This implies that a 1% increase in PPT revenue is associated with an increase of approximately 0.73 percentage points inSMC in the short run period while Petroleum profit tax (log(PPT)) has a positive and highly significant coefficient of 3.4842 (p = 0.0001), indicating that a 1% increase in PPT revenue increases SMC by approximately 3.48% in the long run. This finding shows the continued importance of the petroleum sector in driving corporate performance and investor sentiment within the Nigerian capital market.

The short run coefficient of value added tax (log(VAT)) is -3.0018 and is weakly significant at the 10% level (p = 0.0923), revealing that a 1% increase in VAT is associated with a decrease of approximately 3.00 percentage pointsin stock market capitalization in the short run. This finding shows that increases in indirect taxation may initially reduce consumer purchasing power and

corporate profitability, thereby lowering stock valuations. However, the lagged change in VAT (Dlog(VAT(-1))) has a positive and significant coefficient of 3.9409 (p = 0.0296), indicating that the initial negative impact is reversed in the following quarter as businesses and investors adjust to the new tax environment. LOG(VAT)has a negative and statistically significant long-run effect, with a coefficient of -5.2458 (p = 0.0337). This implies that persistent increases in VAT revenue reduce SMC by approximately 5.25%, suggesting that higher indirect taxation may lower consumption, reduce corporate profitability, and ultimately diminish the market value of listed firms.

The short run coefficient of government expenditure (log(GOVEX)) is positive (0.0140) but statistically insignificant (p = 0.9838), indicating that government expenditure does not significantly affect SMC in the short run. This may show that public spending does not immediately translate into improved corporate earnings or higher stock valuations. The coefficient of log(GOVEX)) is 0.0670 but statistically insignificant (p = 0.9775), indicating that government expenditure does not have a meaningful long-run effect on SMC. This shows that increases in public spending are not automatically translated into improved corporate performance or higher equity valuations.

Public debt-to-GDP (PDSGDP) has a negative and highly significant coefficient of -0.0880 (p = 0.0001), implying that increases in public debt reduce SMC in the short run. Rising public debt may crowd out private investment, increase macroeconomic uncertainty, and weaken investor confidence, thereby reducing the overall value of listed equities. PDSGDP has a negative and highly significant coefficient of -0.4217 (p = 0.0001), indicating that rising public debt consistently reduces SMC over time. Excessive public borrowing may crowd out private investment, increase debt servicing obligations, and weaken investor confidence, thereby limiting capital market development.

The adjusted R-squared of 0.9809 shows that after adjusting for the number of estimated parameters, about 98.09% of the variation in SMC remains explained by the model. The means that the model possesses strong explanatory power. The F-statistic of 318.0453, with a corresponding probability value of 0.0001, indicates that the model is jointly statistically significant at the 1% significance level. This implies that the explanatory variables, taken together, have a statistically significant influence on SMC in Nigeria. Finally, the Durbin–Watson statistic of 2.1242 is very close to the benchmark value of 2, indicating the absence of first-order serial correlation in the model residuals.

Results of other Robustness Tests

The results of the Ramsey RESET test for model specification

Table 8:

The Results Of The Ramsey RESET Test For Model Specification

Test Statistic	*Value*	*Df*	*Probability*
t-statistic	1.3489	97	0.1805
F-statistic	1.8196	(1, 97)	0.1805

Source: Authors' Computation, 2026.

The Ramsey RESET test results in Table 8 examined whether the estimated ARDL model suffers from functional form misspecification or omitted nonlinear variables. The F-statistic of 1.8196

with a corresponding probability value of 0.1805 is statistically insignificant ($p > 0.05$). Therefore, the null hypothesis that the model is correctly specified cannot be rejected. This suggests that the estimated ARDL model does not suffer from omitted variable bias arising from incorrect functional form, and the model specification is considered adequate for inference.

The Results of the Serial Correlation LM Test

Table 9:
The Results of the Breusch–Godfrey Serial Correlation LM Test

Test Statistic	*Value*	*Probability*
F-statistic	0.322	0.7255
*Obs*R-squared (Chi-square)*	0.7863	0.6749

Source: Authors' Computation, 2026.

The Breusch-Godfrey Serial Correlation LM test in Table 9 was conducted to examine whether the residuals of the estimated ARDL model are serially correlated. The results show an F-statistic of 0.3220 ($p = 0.7255$) and an Obs*R-squared statistic of 0.7863 ($p = 0.6749$). Since both probability values exceed the conventional 5% significance level, the null hypothesis of no serial correlation cannot be rejected. This indicates that the residuals are free from autocorrelation, implying that the estimated ARDL model satisfies the serial independence assumption and that the coefficient estimates and statistical inferences are reliable.

The Results of the Heteroskedasticity Test
Table 10:
The results of the Breusch–Pagan–Godfrey Heteroskedasticity test

Test Statistic	*Value*	*Probability*
F-statistic	6.3615	0.0001
*Obs*R-squared (Chi-square)*	65.1646	0.0001
Scaled Explained SS (Chi-square)	203.4526	0.0001

Source: Authors' Computation, 2026.

The Breusch–Pagan–Godfrey test results in Table 10 showed whether the variance of the residuals is constant across observations. The results indicate an F-statistic of 6.3615 ($p = 0.0000$), an Obs*R-squared statistic of 65.1646 ($p = 0.0000$), and a Scaled Explained SS statistic of 203.4526 ($p = 0.0000$). Since all probability values are less than the 5% significance level, the null hypothesis of homoskedasticity is rejected. This gives strong evidence of the presence of heteroskedasticity in the model residuals. Consequently, the study usedthe heteroskedasticity-robust standard errors (example, White or Newey–West HAC standard errors) to obtained consistent standard errors and valid statistical inference.

Stability Test Result
The stability test using the cumulative sum (CUSUM) in Figure 3 revealed that the variables the study's model remained consistent throughout the study period. The swing of the trend within the CUSUM limit at a 5 per cent significant level bound portrays this assertion. This implies, on the other hand, that the parameters of the study's modeldoes not suffer from any structural instability over the study period, which means that all the coefficients of the model are stable.

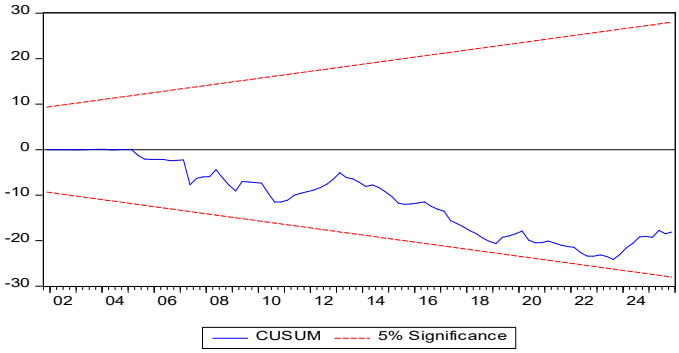


FIG 3: Cumulative sum for test of stability

Discussion of Findings

The study found a positive effect of corporate income tax on stock market capitalization in both the short and the long run periods. But the effect was statistically significant in the short run at five percent level of significance but insignificant in the long run at five percent level of significance. The company income tax was found to positively influence stock market capitalization, was then found to be statistically significant at 10 percent level of significance. This means that an increase in company income tax revenue increases stock market capitalization in both the short run and the long run periods. The result implies that improved corporate tax performance reflects stronger corporate earnings, enhanced profitability, and greater investor confidence, all of which contribute to long-term stock market expansion. This does not align with Daruwala et al. (2022) whose found that tax cuts had a significant positive effect on stock market returns, and developed economies responded more strongly than developing economies.

The study found a positive and statistically significant effect of petroleum profit tax on stock market capitalization at the five percent significance in both the short run and long run periods The finding highlights the continued importance of the petroleum sector in driving corporate performance and investor sentiment within the Nigerian capital market.The finding aligns with Nwogo (2024), who reported significant relationships between petroleum-related fiscal variables and stock market performance.

The study found that valueadded income tax revenue has a negative and statistically insignificant impact on at five percent level of significance in the short run and the statistically significant in the long run period. This means as increase in VAT revenue reduces stock market capitalization in the short run and the long run periods. This finding shows that increases in indirect taxation may initially reduce consumer purchasing power and corporate profitability, thereby lowering stock valuations. This implies that persistent increases in VAT revenue reduce stock market capitalization in the long run and that higher indirect taxation may lower consumption, reduce corporate profitability, and ultimately diminish the market value of listed firms. However, the lagged one period of VAT has a positive and significant coefficient of on capital market capitalization, indicating that the initial negative impact is reversed in the following quarter as businesses and investors adjust to the new tax environment.

The study found that government expenditure has positive but statistically insignificant effect on stock market capitalization in both the short run and the long run periods. This revealed that public spending does not automatically translate into improved stock market capitalization in

Nigeria. This finding in in line with Nwogo (2024) whose study found that government capital expenditure and recurrent expenditure had significant positive effects on stock market performance, while company income tax and petroleum profit tax had significant negative effects.

Public debt has a negative and highly statistically significant impact on stock market capitalization at a five percent level of significance in both the short and long run periods implying that increases in public debt reduce stock market capitalization in both the short run and long run periods in Nigeria. This is because excessive public borrowing may crowd out private investment, increase debt servicing obligations, and weaken investor confidence, thereby limiting capital market development. This finding is in line with Adewale and Bank-Ola (2026) whose study found that domestic debt had a negative effect on stock market performance in both the short and long run.

Summary of Findings

The study examined responsiveness of stock market to fiscal policy stocks: empirical evidence from Nigeria using quarterly time series data from 1996:Q1 to 2025:Q4. Specifically, the study evaluated the responsiveness of stock market capitalization to company income tax in Nigeria; the responsiveness of stock market capitalization to petrol profit tax in Nigeria; the responsiveness of stock market capitalization to value added tax in Nigeria; the responsiveness of stock market capitalization to government expenditure in Nigeria; and the responsiveness of stock market capitalization to government public debt stock in Nigeria. The study employed the Autoregressive Distributed Lag (ARDL) Bounds test for co-integration and Error Correction Model due to the mixed stationarity of the time series data of order zero and one. The study made the following findings:

i. The study found a positive effect of corporate income tax on stock market capitalization in both the short and the long run periods. But the effect was statistically significant in the short run at five percent level of significance but insignificant in the long run at five percent level of significance. The company income tax was found to positively influence stock market capitalization, was then found to be statistically significant at 10 percent level of significance.
ii. The study found a postive and statistically significant effect of petroleum profit tax on stock market capitalization at five percent significance in both the short run and long run periods
iii. The study found that value added income tax revenue has a negative and statistically insignificant impact on at five percent level of significance in the short run and the statistically significant in the long run period. However, the lagged one period of VAT has a positive and significant effect on capital market capitalization.
iv. The study found that government expenditure has positive but statistically insignificant effect stock market capitalization in both the short run and the long run periods.
v. Public debt has a negative and highly statistically significant impact on stock market capitalization at a five percent level of significance in both the short and long run periods

Conclusion of the Study

The study concludes that different fiscal instruments have distinct associations with stock market capitalization**,** suggesting that the composition of fiscal policy rather than just the overall level of fiscal activity may be important for capital market outcomes. Specifically: CIT and PPT show positive associations with SMC, indicating that corporate and petroleum tax revenue

environments have moved alongside market capitalization. VAT shows a negative long-run association, suggesting that consumption-based taxation may have dampening effects on market valuations over time. Public debt shows a strong negative association in both the short and long run, indicating that rising debt levels have been associated with weaker stock market performance.Government expenditure shows no statistically significant association, suggesting that the level of public spending alone may not be sufficient to support capital market development.Overall, achieving sustainable development of the Nigerian stock market requires a balanced fiscal strategy that promotes efficient tax administration, productive public expenditure, and responsible debt management while fostering a conducive environment for private investment and investor confidence.

Policy Recommendations

Based on the findings of the study, the study makes the following recommendations:

i. Based on the finding that corporate income tax revenue has a positive effect on stock market capitalization in both the short and long run, with statistical significance in the short run at the 5 percent level and in the long run at the 10 percent level, the study recommends that the Nigeria Revenue Service, the Ministry of Finance, and the National Assembly should improve corporate tax administration, widen the tax base, and close loopholes without raising tax rates. They should also align tax reforms with capital market policies so that corporate taxation supports firm growth, listing, transparency, and stock market capitalization.

ii. Based on the finding that petroleum profit tax has a positive and statistically significant effect on stock market capitalization at the 5 percent level in both the short and long run, the study recommends that the NRS, Nigerian Upstream Petroleum Regulatory Commission (NUPRC), and the National Assembly maintain a stable and predictable petroleum tax regime that encourages investment and corporate profitability. It also recommends channeling part of petroleum profit tax revenue into infrastructure and capital market development initiatives to sustain its positive impact on stock market capitalization.

iii. Given the finding that value added tax (VAT) revenue has a negative impact on stock market capitalization statistically insignificant in the short run but statistically significant in the long runwhile its one- period lag has a positive and significant effect on market capitalization, the study recommends that the NRS , Federal Ministry of Finance, and the National Assembly adopt a gradual and well-communicated approach to VAT reforms by avoiding abrupt increases in VAT rates. VAT exemptions and incentives should target investment- and growth-enhancing sectors, while strengthening tax administration and compliance to increase revenue without adversely affecting long-run stock market capitalization.

iv. Based on the finding that government expenditure has a positive but statistically insignificant effect on stock market capitalization in both the short and long run, the study recommends that the Federal Ministry of Finance, The federal Ministry of Budgeting and National Planning , and relevant ministries prioritize productive public expenditure on infrastructure, human capital, and business-supportive projects while strengthening public financial management. Regular monitoring and evaluation of government spending should also be institutionalized to ensure that public expenditure contributes more effectively to corporate growth and stock market capitalization.

v. Given the finding that public debt has a negative and highly statistically significant impact on stock market capitalization at the 5 percent level in both the short and long run, the study recommends that the Debt Management Office (DMO), Federal Ministry of Finance, Central Bank of Nigeria (CBN), and National Assembly should adopt a more stringent debt sustainability framework and implement credible fiscal consolidation measures. New borrowing should be carefully aligned with growth-enhancing, productivity-driven projects rather than recurrent consumption, and the composition of debt should favor concessional and long-term instruments to reduce rollover and servicing risks that erode investor confidence.

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