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Effect Of Monetary Policy Rates and Inflation on The Nigerian Exchange Group (NGX)

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Abstract

This study examines the impact of central bank monetary policy rates and inflation on stock market performance in Nigeria over the period 1990 to 2023. Using the All-Share Index (ASI) as a proxy for market performance, the study employs the Autoregressive Distributed Lag (ARDL) model to assess both short-run and long-run relationships among the variables. The Treasury Bill Rate (TBR) is utilized as a proxy for the central bank's policy rate, while a dummy variable is introduced to capture structural policy shifts from 2006 onwards. Findings reveal that both the monetary policy rate and inflation exert negative but statistically insignificant effects on stock market performance in the short and long run, suggesting limited direct influence of these macroeconomic tools on market behavior. In contrast, the exchange rate demonstrates a statistically significant and positive long-run effect on All-Share Index, highlighting the potential influence of currency valuation on market outcomes. The results imply that Nigeria's stock market may be more responsive to other structural or external factors than to conventional policy instruments. This study offers valuable insights for policymakers and investors, indicating the need for complementary reforms to enhance the efficacy of monetary policy in stimulating capital market growth.

Keywords: All Share Index, Exchange Rate, Inflation Rate, Monetary Policy Rate.

JEL Classification: E44, E53, E31.

1. Introduction

The Nigerian Exchange Group (NGX), formerly the Nigerian Stock Exchange, plays a crucial role in Nigeria's economic development and progress. It facilitates capital mobilization, investment facilitation, and economic efficiency promotion. Monetary policy, carried out by the Central Bank of Nigeria (CBN), significantly impacts the performance of the NGX. In Nigeria, the Central Bank of Nigeria (CBN) has often depended on Treasury Bill Rate (TBR) to steer the inflation rate and improve the economy. Although the impact of these tools on the growth of capital markets continues to be discussed. When inflation or interest rates change, it is believed to change investor actions, corporate earnings and the worth of assets (Okonkwo & Okereke, 2025). In order to preserve price stability, promote economic growth, and stabilise the economy, the CBN employs monetary policy measures. However, there is disagreement over how effective monetary policy is in addressing Nigeria's economic instability, which includes volatility in the currency rate, high unemployment, and inflation (Aminu et al., 2025). Because of fluctuating interest rates, inflation, and an unstable currency, Nigeria's primary stock market, the NGX, has seen significant volatility. Because monetary policy changes impact market capitalisation, liquidity, and investor confidence, which in turn affects the performance of the NGX, they may cause investors to revalue their stock holdings and raise doubts about the current framework for monetary policy (Oyadeyi et al., 2025).

According to Alao et al. (2025), the stock market is an essential part of every economy because it helps mobilise domestic resources for profitable investments, which signals the redistribution and reallocation of assets among various economic units. The performance of the stock market is also linked to the overall performance of an economy. According to Oyadeyi et al. (2025), there is a basic relationship between the performance of the capital market and the development of the economy, and the expansion of the Nigerian economy during the past 20 years may be linked to the influence of the stock market on the economy as a whole. The tools of monetary policy are modified to accomplish macroeconomic objectives, manage risks, and preserve the stability of the financial system. The significance of the stock market for monetary policy and financial risk management has piqued the interest of the Central Bank of Nigeria (CBN) in comprehending its general operations (Adewole et al., 2023).

According to David and Lewis (2024), exchange rates are essential for figuring out the relative costs of domestic and foreign commodities as well as the level of international trade. Nigeria's economic history underwent a sea change in 1986 when it went from a fixed to a flexible system. The goal of the 1986 Structural Adjustment Program (SAP) was to increase export competitiveness, which resulted in changes to exchange rates. However, because of the inconsistent and discontinuous exchange rate management, the efficacy and stability of these measures have come under scrutiny. Throughout its history, Nigeria's exchange rate has experienced both stable and volatile times as it has moved from regulated to deregulated regimes (Dada et al., 2024). Exchange rate fluctuations impact output and prices both directly and indirectly, which impacts economic growth and inflation control. Companies can obtain cash and investors can purchase ownership stakes through the stock market, a vital component of the financial system (Adewale & Adewole, 2024).

The economy depends heavily on stock markets since they mobilise domestic resources for profitable investments. However, macroeconomic factors that affect stock prices include the exchange rate and inflation (Adewale & Adewole, 2024). Since it affects the performance of the economy, governments frequently worry about inflation, which is the steady rise in general prices (Adewale & Adeyemo, 2024). Income, high nominal salaries, revenue fluctuations, and debt repayment are some of the elements that have contributed to unstable inflation rates despite stringent measures. One obvious feature of the Ghanaian economy has been price fluctuations, which have resulted in nonconstant rates of inflation. According to Dritsakis (2011), there is a long-term correlation between the demand for money, inflation, real income, and exchange rates; real income has a positive elasticity, while inflation and exchange rate have a negative elasticity. As a result, when making investment selections, investors ought to take macroeconomic factors into account.

Macroeconomic factors like inflation, interest rates, and exchange rates all affect stock prices, but firm-specific information, supply, and demand all affect how efficient the capital market is (Adewale & Adewole, 2024). The stock market is regarded as a gauge of the health of the economy, and its capitalisation and index are thought to be the best ways to track shifts in economic activity. Given how much the stock market affects investment and consumption decisions, changes in share prices reflect the private sector's assessment of present and future business conditions (Musa et al., 2024). An increase in money and credit relative to the amount of goods and services available is the cause of inflation, which is defined as a rising general price level (Ikeobi, 2024). Since the objective is to get a respectable return on investment with the least amount of risk, high rates of inflation may deter investment. Since the investment's value may decrease over time, it is imperative to take the current rate of inflation into account while making investments in order to do this.

Although the Central Bank of Nigeria (CBN) has intervened in this through the implementation of different monetary policies, the performance of the Nigerian capital market, especially the Nigerian Exchange Group (NGX) has been erratic and at best poor. Namely, the variation of the monetary policy rate (MPR) of inflation rate and modification in the exchange rate are likely to impact stock market performance through the formation of investors expectations, asset price formation, and thereby capital allocation. However, in the case of Nigeria, these relationships are not well elucidated. The issue of this lie in vital importance since stock markets are major drivers of economic growth due to mobilization of savings, induction of investment and capital building. When the monetary policy instruments are ineffective of reaching the stock market it means there is the possibility of macroeconomic management being weak, discourage both local and foreign investment, reduce market efficiency and slow the growth of the financial sector.

The repercussions of this unsolved dilemma are far-fetched. Poor market transmission of monetary policy can lead to chronic market turmoil, investors setting liquidity, low capital accumulation, and unfruitful countering of inflation or currency depreciation. Further, when inflation and monetary tightening do not show in the change of the prices of stocks, then the goals of the CBN, which are price and monetary stability, may be lost. Although the literature has examined the impact of the macro-economic variables on capital markets in Nigeria, there is still little or no conclusive evidence. Other studies indicate meaning relations, in addition to the fact that, some researchers record weak or insignificant effects. Furthermore, most surveys ignore the structural change in policy that was implemented in 2006 when MPR framework was formally adopted by the CBN as a monetary anchor. This lack of oversight leaves an incertitude in the knowledge of whether reforms in the monetary policy have changed the responsiveness of the market or not.

Thus, the paper will attempt to address a crucial research question: What is the degree of monetary policy rate, inflation, and exchanges rate impacts on stock market performance in Nigeria before-and-after undertaking critical policy adjustments?

The main objective of this study is to examine the effect of monetary policy rate, inflation, and exchange rate on stock market performance in Nigeria, using the All-Share Index (ASI) of the Nigerian Exchange Group (NGX) as the performance indicator. Other specific objectives are to: assess the effect of the monetary policy rate on the All-Share Index of the Nigerian Exchange Group, examine the impact of inflation on the All-Share Index of the Nigerian Exchange Group, evaluate the effect of the exchange rate on the All-Share Index of the Nigerian Exchange Group.

2. Literature Review and (Hypothesis Development if possible)

2.1.1 All Share Index (ASI)

The All-Share Index (ASI) tracks the overall market movement and displays daily price variations for all listed securities on the NGX, including those listed on the Growth Board, irrespective of size (Adewale & Adewole, 2024). According to Thomas et al. (2023), the ASI is a collection of data points that display the average share prices of all companies listed on a stock market, which fluctuate over time. The All-Share Index is a comprehensive stock market index that provides useful insights into overall market trends and the status of the economy by displaying the performance of each share listed on a certain exchange (Ehiedu & Obi, 2022). The All-Share Index, which provides a comprehensive evaluation of market performance and is used to monitor investor behaviour and market movements as well as evaluate the impact of monetary policy on the economy, includes all of the companies listed on an Exchange Group (Adewole et al. 2023).

2.1.2 Monetary Policy Rate

The Monetary Policy Rate is the interest rate at which the Central Bank of Nigeria lends to Nigeria's Deposit Money Banks (Francis et al., 2025). This rate is also known as the prime lending rate. This rate is expected to have an impact on other lending rates. 27.50% is the most recent monetary policy rates as of May 2025. The interest rate is the amount that deposit money banks (DMBs) charge their customers. Since a greater MPR increases the interest rate, customers find it less advantageous to borrow from banks.

2.1.3 Exchange Rate

A nation's currency competitiveness is gauged by its exchange rate, which has an impact on its overall economic performance (Pole & Cavusoglu, 2021). It is a significant economic factor that affects every industry, but particularly the manufacturing sector. Exchange rate fluctuations may deter investment in countries like Nigeria that rely heavily on imports due to the increased uncertainty surrounding profits (Godwin & Udeh, 2021). Studies show that exchange rate fluctuation discourages trade volume expansion, which lessens its benefits. Businesses can lower risks by using future or forward markets, which provide a guaranteed projection of currency rates at the end of the contract period. In the future market, traders might profit from the uncertainty they encounter by paying a tiny margin (Aminu et al., 2025).

2.1.4 Inflation Rate

Inflation, according to Adewale and Adewole (2024), is the gradual increase in the average price of goods within an economy, which results in a decline in the value of the internal medium of exchange and the unit of account. The inflation rate, or the annualised percentage change in a wide price index, is the primary indicator of price inflation. According to Adewale and Adeyemo (2024), central banks can have positive effects by promoting investment in non-monetary capital projects and modifying real interest rates.

2.2 Theoretical Review

2.2.1 Efficient Market Hypothesis (EMH)

According to the efficient market hypothesis, stockholders typically either overreact or underreact to new information, demonstrating a regular and arbitrary distribution of investor reactions. A market that responds swiftly and fairly to fresh information prevents investors from offering disproportionate gains. All available information on a stock's expected future cash flows is already taken into account when determining its price. It is difficult to outperform the market since market prices already take into account and reveal all relevant information. For a capital market to be effective, consumers must be informed. Any stock market's efficiency is determined by how rapidly equities incorporate and reflect all pertinent information into their pricing. The speed at which security pricing adjusts in reaction to fresh information determines how successful it is. Market competence was classified as weak, moderately strong, and strong by Fama (1970). If current price appropriately reflects all publicly available information, the market is deemed capable under the weak-form. Sensitive information is included in a high-efficiency market, which deters participants from generating unusual gains. The market values of assets accurately reflect all pertinent facts, both public and private. Despite its difficulty in access, private knowledge is also seen to be useful for generating irrational advantages.

2.2.2 Mckinnon-Shaw (1973) Hypothesis

According to Mckinnon and Shaw (1973), stock market expansion and financial deregulation may increase GDP by affecting rates of investment, savings, and economic expansion. They maintained that flexible loan policies, high reserve requirements, low interest rates, and credit controls limit saving and make it more difficult to allocate resources. According to the McKinnon-Shaw theory, lower real interest rates deter saving, which results in less money available for loans, less investment, and a slower rate of economic growth. This idea has been adopted by international institutions such as the World Bank and IMF, which has resulted in financial liberalisation policies in developing countries. These policies seek to promote the expansion of the securities market, reduce credit monitoring, boost competition, and improve systemic efficiency as they move from controlled interest rates to market-driven rate constancy.

2.2.3 Theoretical framework

For this study, the McKinnon-Shaw Hypothesis (1973) offers the most important theoretical basis. It advocates that opening financial markets and allowing interest rates to set by the market encourage savings, investment and lead to effective capital market development. It is proposed that when a government follows a restrictive monetary policy, people save less, face more problems getting credit and the stock market grows less. According to the study, there is only a weaker but actually insignificant influence on the All-Share Index from both the monetary policy rate and inflation. Emphasizing the role of money in affecting the performance of capital markets, the McKinnon-Shaw Hypothesis fulfills the main goal of this study which is why it is a good fit for analyzing monetary effects in Nigeria.

2.3 Empirical Review

Akintoye and Edeh (2025) examine the impact of monetary policy instruments specifically interest rates and real GDP growth on the performance of the Nigerian Exchange Group (NGX). By reviewing secondary data covering a 10-year period from the CBN and NBS, collected using an ex-post facto design, both descriptive and inferential analysis are applied by the study. Both interest rates and real GDP growth have a strong but negative effect on the NGX's All Share Index and market capitalization, as shown by the research. The authors recommend that the Central Bank's monetary strategy be assessed again to minimize harmful outcomes for the capital market and encourage the Central Bank and government to better cooperate in monetary and fiscal policies to boost market stability and economic growth.

Okonkwo and Okereke (2025) examine the relationship between Nigeria's economic policy uncertainty (EPU) and the performance of the Nigerian Exchange Group (NGX), Using research that covers 2004 through 2022. A regression technique and the ex-post facto design are applied to compare market capitalization and the All-Share Index (ASI) as indicators of performance. Our findings indicate that there is a negative and significant link between EPU and the size of the market, while EPU positively impacts ASI which may mean some players in the market are being speculative. Confirming the influence of uncertainty in the economy, the study suggests adding new listings to the stock market and raising its overall governance standards. It calls for tougher rules to prevent financial growth based mainly on speculation and to ensure genuine factors are in place.

Francis, Anaenugwu, and Onyinye (2025) study the effect of the monetary policy rate on Nigeria's capital market development from 1990 to 2024, the study used the NARDL model. With the All-Share

Index chosen as the dependent variable, the study used monetary policy rate, broad money supply, inflation rate, exchange rate and 91-day Treasury bill as explanatory variables. All data used were collected from the CBN and NBS. According to findings, the All-Share Index grew by 18% when the policy rate increased and fell by 4% when it decreased. Treasury bill increases made a positive impact on the market. It is recommended in the study that schools make adaptions.ve monetary policies to strike a balance between inflation control and capital market growth.

Ibeinmo, Akidi, and Nwankwo (2025) investigate the effect of exchange rate dynamics on the performance of the Nigerian stock market using data from 1981 to 2022. ASI is chosen as a measure for stock market performance in the study and naira-to-dollar exchange rate, interest rate and trade openness are used as the main factors. The analysis, using ADF, Johansen cointegration and Error Correction Models (ECM), demonstrates that the ASI is greatly affected by negative impacts from the exchange rate, interest rate and positive ones from trade openness. The authors suggest the Central Bank use tougher strategies to keep the exchange rate stable which should improve the stock market's performance.

Islam and Chowdhury (2024) investigate the relationship between exchange rate fluctuations and the CSE All Share Price Index (CASPI) in Bangladesh. the results were produced using a Vector Error Correction Model (VECM). The study uses daily time series data to explore how things evolve in both the short and long run. Research shows that, at higher levels, the variables are not stationary, but become stationary once the data is examined at a first difference, allowing for VECM analysis. The study highlights links between changes in exchange rates and CASPI over the short run and the long run. The data from the study showed no important improvement in exchange rates. This study gives investors, policymakers and financial analysts information on the role of main economic factors in the behavior of developing countries' stock markets.

Ikeobi (2024) investigated the effect of inflation on stock prices in Nigeria using data from 2006 to 2020. The study used the ARDL model to examine the All-Share Index in relation to inflation rate, Treasury bill rate, broad money supply, the exchange rate and the S&P 500 and DJIA from the US stock markets. Inflation, it turned out, had a small and not significant effect on both short-term and long-term stock prices. The supply of money was negative, but this happened only in the short term. The bank's results were not greatly affected by the exchange rate or Treasury bill rate. Results suggest that stock prices are less affected by inflation than the Fisher hypothesis claims. According to the study, governments should carry out inflation control to keep markets steady.

Kwofie and Ansah (2018) examined the effect of inflation and exchange rate on stock market returns in Ghana using monthly data from January 2000 to December 2013. Using both the ARDL cointegration technique and the error correction model, they examined the relationship between market returns of the GSE, inflation and exchange rates, for both the long and short run. Research found that market returns were strongly related to inflation over the long run, but not in the short term. There were also connections in the long run and the short run between changes in exchange rates and changes in stock market returns. The results also pointed to long memory in the variables, meaning that investors might benefit from tracking long-lasting patterns in inflation and exchange rates for their portfolio choices.

3. Data and Methodology

This study adopts an ex post facto research design to analyze the effect of monetary policy rate, inflation, and exchange rate on stock market performance in Nigeria, measured by the All-Share Index (ASI) of the Nigerian Exchange Group (NGX). The study basically used secondary data. Time series annual data on monetary policy rate, inflation, and exchange rate on stock market performance in Nigeria are extracted from Central Bank of Nigeria Statistical Bulletin from 1990 to 2023. The Monetary Policy Rate (MPR) was formally introduced by the Central Bank of Nigeria in 2006. For periods before this, the Treasury Bill Rate is adopted as a proxy for monetary policy stance. Data is analyzed using multiple regression techniques, with necessary diagnostic. The variables include ASI (dependent variable), monetary policy rate and inflation (independent variables), and exchange rate (control variable). Analysis is conducted using EViews software.

3.1 Model Specification

The model used in the study will evaluate the relationship between monetary policy rate, inflation, exchange rate, and stock market performance (proxied by the All-Share Index). The model can be specified as:

$$ASI_t = \beta_0 + \beta_1 MPR_t + \beta_2 INF_t + \beta_3 EXR_t + \epsilon_t \text{...} (1)$$

Where:

ASI_t = All Share Index at time t

MPR_t = Monetary Policy Rate at time t

INF_t = Inflation Rate at time t

EXR_t = Exchange Rate at time t

β_0 = Intercept

$\beta_1, \beta_2, \beta_3$ = Coefficients

ϵ_t = Error Term

Equation (1) is estimated using the Autoregressive Distributed Lag (ARDL) model to account for both short-run and long-run dynamics among the variables.

4. Results and Discussion

Table 1. Correlation Matrix

	ASI	MPR	INF	EXR
ASI	1	-0.25483	-0.29487	0.810568
MPR	-0.25483	1	0.431058	0.042451
INF	-0.29487	0.431058	1	-0.12118
EXR	0.810568	0.042451	-0.12118	1

Source: Author's computation, 2025

Table 1 displays the correlation levels between the study variables: ASI, MPR, INF and EXR. It allows us to understand how strongly and in what direction linear relationships exist between different variables, since values on this matrix can be both negative and positive. When we see a positive value, it tells us that higher values in one variable go with higher values in the other.

A positive connection was found between the ASI and the exchange rate, with 0.811, meaning that as the naira weakens, the Nigerian stock market does better. The results could indicate that investors use equities as a way to protect their assets when the currency weakens. On the contrary, a negative correlation between ASI and both the MPR (-0.255) and inflation (-0.295) indicates that higher interest rates and inflation may weaken the performance of the stock market. As economic theory explains, a combination of higher inflation and tighter monetary policy results in low real returns for investors and weaker action on the market. It is expected that the connection between MPR and inflation (0.431) exists because the Central Bank sets interest rates to combat inflation and this result matches our observation. It is striking that the exchange rate has only a moderate relationship with the MPR (0.042) and a slight one with inflation (-0.121) for the time examined.

Table 2. Long-Run ARDL Regression Results

Dependent Variable: ASI

Method: ARDL

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
ASI(-1)	0.552048	0.13957	3.955356	0.000474
MPR	-433.159	403.6043	-1.07323	0.292332
INF	-27.2681	99.37657	-0.27439	0.785798
EXR	53.23857	12.89859	4.127471	0.000298
C	8648.675	5943.617	1.45512	0.156757
R-squared	0.830834	Mean dependent var		2.39E+04
Adjusted R-squared	0.806667	S.D. dependent var		17889.31
S.E. of regression	7865.862	Akaike info criterion		20.91718
Sum squared resid	1.73E+09	Schwarz criterion		21.14392
Log likelihood	-340.133	Hannan-Quinn criter.		20.99347
F-statistic	34.37941	Durbin-Watson stat		1.791581
Prob(F-statistic)	1.99E-10			

Source: Author's computation, 2025.

Table 2 present the findings from the ARDL model, showing the effect of the monetary policy rate (MPR), inflation (INF) and exchange rate (EXR) on the All-Share Index (ASI) as a representation of Nigeria's stock market performance over the long run. The model has a delayed value of ASI because stock market behavior changes over time. A positive and significant influence on current stock market performance is shown by the 0.552 lagged ASI coefficient (p = 0.0005). This shows that stock market action stays the same over time.

According to the study, the negative value of MPR's coefficient (-433.159) shows it is insignificant (p = 0.292), so changes in monetary policy do not strongly impact the stock market over time. Likewise, inflation is shown with a negative coefficient (-27.2681), but it has no impact on the ASI over the long run (p = 0.786). Nevertheless, the exchange rate is positively linked with the ASI and this effect is significant (coefficient = 53.24, p = 0.0003). As a result, it shows that as the naira weakens, stock prices often go up, a likely effect of investors changing to stocks to protect themselves from currency problems.

In short, monetary policy rate and inflation have no noticeable lasting effect on stocks, but changes in exchange rates are very important. It underlines why correctly managing exchange rates helps keep investors and the market confident and stable.

Table 3. Short-Run Dynamic Regression Results

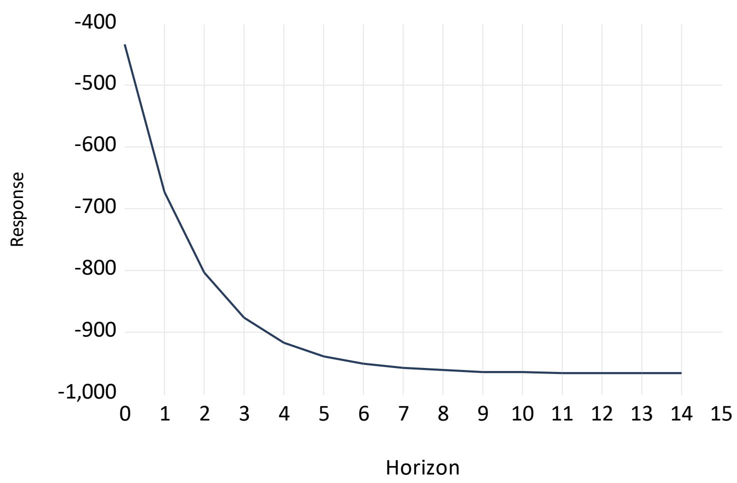
Variable *	Coefficient	Std. Error	t-Statistic	Prob.
MPR	-966.977	843.0806	-1.14696	0.260775
INF	-60.8728	218.4242	-0.27869	0.78246
EXR	118.849	25.73273	4.61859	7.31E-05
C	19307.17	10684.33	1.807055	0.08114

Source: Author's computation, 2025.

The short-run dynamic coefficients from Table 3 indicate the first-round effects that MPR, INF and EXR have on the All-Share Index (ASI) when used in the ARDL model. How these factors affect the Nigerian stock market in the short term is made clear by the results.

The coefficient for MPR is -966.98, but this relationship with ASI is not statistically important at the 5% level ($p = 0.261$). Simply put, a change in the central bank's rates just over a short period does not affect the Nigerian Exchange Group too much. Inflation and the ASI are significantly unrelated in the short run, as inflation has a negative impact with no significance ($p = 0.782$). Meanwhile, the exchange rate (EXR) also contributes to the overall effect positively and this coefficient is highly significant ($p < 0.001$). This finding suggests that in the first period after a naira depreciation, the stock market performs better. It might be due to investors adjusting their portfolios by investing in shares when their own currency is uncertain.

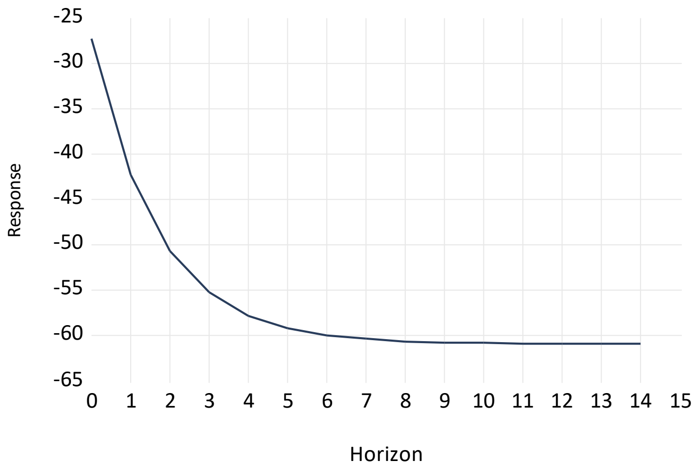
All in all, the exchange rate continues to be the main factor affecting stock market outcomes in the short run, with no significant changes seen from monetary policy or inflation rates. The outcomes of these analyses demonstrate the swift impact of changes in the exchange rate on the Nigerian stock market.



Source: Author's computation, 2025.

Figure 1. Monetary Policy Rate on the All-Share Index

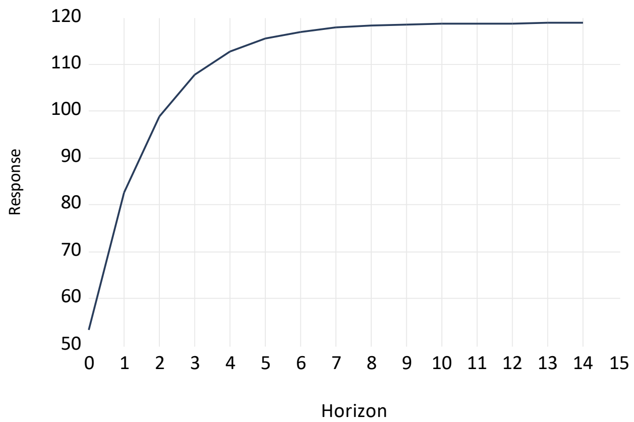
Figure 1 shows the Impulse Response Function (IRF) or the distribution of residuals over time after a change in the MPR on the Nigerian Exchange Group's ASI. The fast fall at the beginning means that RMP has a rapid influence on ASI, but this shrinks with time. The results seem to show that the monetary policy rate has a strong effect on the stock market at first but this influence quickly levels out. The curve shows that ASI falls when MPR rises, agreeing with the long-run ARDL findings of an insignificant negative MPR coefficient. That's why classical theory holds that when interest rates go up, investment decreases, the stock market often declines and prices decrease accordingly. As the curve levels out toward the horizontal axis, the ASI is able to smooth out the shock and return to balance after a while. It proves that the Nigerian stock market tends to revert to its previous levels after decades of policy rate changes. Since sudden interest changes may disturb both investor confidence and market valuations, policymakers ought to pursue them gradually.



Source: Author's computation, 2025.

Figure 2. Inflation Rate on the All-Share Index

In Figure 2, we use an IRF to highlight how the Nigerian All-Share Index (ASI) responds to changes in the inflation rate. After an inflation shock, as seen on the graph, ASI recorded a sudden drop, demonstrating how quickly the stock market reacts to inflation. The first evidence reveals that inflation has a fast and negative impact on the market, reducing real returns and faith in it. As things unfold, inflation's negative impact on ASI becomes less noticeable. The actions of the Federal Reserve prove that although inflation has a fast effect, its influence dims over time as the market adjusts to the new information. This is in agreement with the earlier ARDL short-run results which found that inflation does not statistically affect the ASI. It seems that lack of inflation weeded through to the market could be because of sticky prices, risk hedges by investors or flaws in the trading structure. This result shows that theory predicts that a high level of inflation leads to more uncertainty and risk, so more investors become cautious of investing in equities. Because the Nigerian capital market responds to inflation assumptions in the short-term, reliable and constant inflation-management policies are required to give investors confidence and support market development.



Source: Author's computation, 2025.

Figure 3. Exchange Rate on the All-Share Index

Looking at Figure 3, the Nigerian All-Share Index (ASI) responds to a standard one-deviation move in the exchange rate. As you can see, the exchange rate shocks have increased ASI over the years. At first, the changes are minor, but they become noticeable and get stronger for a while, then reach a consistent and lasting point. So, if the naira depreciates and its exchange rate grows, export activities will become more favorable for companies listed on the Nigerian Exchange. When a company's earnings go up, their stock value increases which boosts the ASI. After a while, the graph no longer rises much which means the change in the market reaches a steady level in the long run.

The results here are similar to those from the ARDL analysis in the paper which displayed a prominent and positive link between the exchange rate and stock market outcomes over the long term. The result suggests that exchange rate changes greatly influence how the Nigerian equity market behaves, underlining the importance of setting solid exchange rate management policies to maintain investor confidence and stability in the market

5. Discussion

The results from the ARDL analysis shows that there is a negative but statistically insignificant relationship between the MPR and the ASI. That means changes in the MPR apparently had little effect on investors or trading at the Nigerian Exchange Group (NGX) during the review period. This result is in accordance with Ikeobi (2024), who discovered that Nigerian investors pay no special attention to interest rates when setting stock prices. In the same way, Kwofie and Ansah (2018) found that there was no strong short-run link between interest rates and market returns in Ghana. Interestingly, Akintoye and Edeh (2025) discovered a strong negative effect of interest rate on the ASI, indicating that the link between interest rate and the ASI may differ under various economic and investor circumstances.

There was a negative effect of inflation on productivity as a whole, but it was not statistical enough to show up in the data. This result means stock market fluctuations tended not to respond to changes in the rate of inflation during the study period. The result backs Ikeobi's work from 2024 which concluded that inflation is only weakly tied to stock prices and challenged the theory by Fisher which assumes a positive relationship. Kwofie and Ansah (2018) noticed that although a link between inflation and stocks lasted long term, it did not make much of a short-run difference in Ghana. As an alternative, Akintoye and Edeh (2025) have shown that inflation significantly decreases the performance of equities on the Nigerian stock market.

Results from the analysis show that the exchange rate strongly and positively influences the performance of the stock market in both the short and long run. Consequently, the buoyancy of the naira by means of higher exports or consumer behavior may cause in an increase in stock market activities. The findings match those of Francis, Anaenugwu and Onyinye (2025), who also discovered that a stronger exchange rate helps the ASI and highlights the important role of exchange rate fluctuations in boosting Nigeria's capital market. In addition, Kwofie and Ansah (2018) observed that stock returns in Ghana are also improved by changes in the exchange rate. Yet, the results are not in line with Ibeinmo, Akidi and Nwankwo (2025), who showed that a higher exchange rate could negatively affect stock market performance because investors reacted negatively to foreign exchange rate uncertainty. Although monetary policy rate and inflation do not have a noticeable impact on the stock market in Nigeria during the survey period, a stable exchange rate clearly helps the capital market thrive.

6. Conclusion

This paper considered how the monetary policy rate, inflation, and the exchange rate has impacted on the performance of the Nigerian stock market with All-Share Index (ASI) of the Nigerian Exchange Group (NGX) as the performance indicator. The article has conducted a study on the short-run and long-run dynamics between the chosen macroeconomic variables using annual time series data between 1990 and 2023 and with the help of the Autoregressive Distributed Lag (ARDL) model. The empirical findings were that the monetary policy rate and the level of inflation had a negative influence on the performance of the stock market but they were not significant. On the contrary, there was a stable and statistically significant positive correlation between the exchange rate and the All-Share Index both in the short run and the long run, which brings up the idea that the changes in the exchange rate might affect the behavior of investors and the inclination toward the stock market significantly more than the traditional monetary policy tools.

These results suggest that the Nigerian stock market is not very sensitive to interest rate changes and changes in inflation but are highly sensitive to changes in the exchange rate. This goes to argue that the policymakers especially that of the Central Bank of Nigeria should re-evaluate the performance of the current monetary policy tools and approach a broader approach to macro-financial strategy to boost the performance of markets. It is advisable that the Central Bank should focus more on consistency, greater transparency as well as credibility in their monetary policy framework to strengthen the confidence of the investors and to enhance market responsiveness. Also, the given inflation control should continue being at the top of the agenda, and the monetizing and fiscal authorities must coordinate to reduce the uncertainty that will ensure stability in the market. Above all, a predictable exchange rate regime based on healthy foreign exchange management and calculated interventions ought to be adopted. This stability shall not only enhance the levels of confidence by the investors, both domestic and foreign but also strengthen and advance the efficiency of the Nigerian capital market.

Conflict of Interest
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