

Impact of Stock Market Development on Economic Growth: Evidence from Selected Sub-Saharan African Countries

Daniel Kwabena Twerefou, Emmanuel Abbey, Emmanuel A. Codjoe, Peter Saitoti Ngotho
Department of Economics, University of Ghana, P. O. Box LG 57, Accra, Ghana

This paper examines the impact of stock market development on economic growth in Sub-Saharan Africa using a balanced panel data of five selected countries over the period 1993-2013 and the system generalised method of moments dynamic panel estimation framework. The paper finds a positive impact of stock market development proxied by the *turnover ratio of domestic shares and market capitalization on economic growth* though minimal. Furthermore, investment, lagged gross domestic product and human capital were found to have a significantly positive impact on growth while trade and foreign direct investment negatively impacted on growth, even though the results for foreign direct investment is not significant in all the models and consequently, not very robust. There should be policy measures aimed at enhancing economic growth using the development of the stocks market as a channel. Such policies should focus on developing the appropriate mix of taxation of investors as well as the development of requisite technology, institutional and regulatory framework that will facilitate an increase in the size and liquidity of the market in the sub-region.

Keywords: stock markets, economic growth, generalised method of moments, market capitalization, turnover ratio, sub-Saharan Africa

Received: January 16, 2019; Accepted: March 29, 2019; Published: August 26, 2019



[Open full article](#)

References

1. ARELLANO, M. and BOND, S. 1991. Some tests of specification for panel data: Monte Carlo evidence and an application to employment equations. *The review of economic studies*, 58(2): 277-297. DOI: 10.2307/2297968. [doi>Go to original source...](#)
2. ARELLANO, M. and BOVER, O. 1995. Another look at the instrumental variable estimation of error-components models. *Journal of econometrics*, 68(1): 29-51. DOI: 10.1016/0304-4076(94)01642-D. [doi>Go to original source...](#)
3. ACEMOGLU, D. 2007. *Introduction to modern economic growth*. 1st Edition. Princeton: Princeton University Press.
4. ADJASI, C. K. and BIEKPE, N. B. 2006. Stock Market Development and Economic Growth: The case of Selected African Countries. *African Development Review*, 18(1): 144-161. DOI: 10.1111/j.1467-8268.2006.00136.x. [doi>Go to original source...](#)
5. ADUSEI, M. 2013. Financial Development and Economic Growth: Evidence from Ghana. *The International Journal of Business and Finance Research*, 7(5): 61-76.
6. AHMAD, Z., KHAN, A. A. and TARIQ, A. 2012. Stock market development and economic growth: A comparative study of Pakistan and Bangladesh. *African Journal of Business Management*, 6(8): 29-85. [doi>Go to original source...](#)
7. ARESTIS, P., DEMETRIADES, P. O. and LUINTEL, K. B. 2001. Financial development and economic growth: the role of stock markets. *Journal of money, credit and banking*, 33: 16-41. DOI: 10.2307/2673870. [doi>Go to original source...](#)
8. BARRO, R. J. and LEE, J. W. 1993. International comparisons of educational attainment. *Journal of monetary economics*, 32(3): 363-394. DOI: 10.1016/0304-3932(93)90023-9. [doi>Go to original source...](#)

9. BLEANEY, M. and GREENAWAY, D. 2001. The impact of terms of trade and real exchange rate volatility on investment and growth in sub-Saharan Africa. *Journal of development Economics*, 65(2): 491-500. DOI: 10.1016/S0304-3878(01)00147-X [doi>Go to original source...](#)
10. BORENSZTEIN, E., DE GREGORIO, J. and LEE, J. W. 1998. How does foreign direct investment affect economic growth? *Journal of international Economics*, 45(1): 115-135. DOI: 10.1016/S0022-1996(97)00033-0 [doi>Go to original source...](#)
11. BECK, T. and LEVINE, R. 2004. Stock Markets, Banks, and Growth: Panel Evidence. *Journal of Banking & Finance*, 28(3): 423-442. DOI: 10.1016/S0378-4266(02)00408-9 [doi>Go to original source...](#)
12. BENCIVENGA, V. R. and SMITH, B. D. 1991. Financial Intermediation and Endogenous Growth. *The Review of Economic Studies*, 58(2): 195-209. DOI: 10.2307/2297964 [doi>Go to original source...](#)
13. BILAL, B., CHEN, S. and KOMAL, B. 2016. Impact of Stock Market Development on Economic Growth: Evidence from Lower Middle Income Countries. *Management and Administrative Sciences Review*, 5(2): 86-97.
14. BOYD, J. H. and PRESCOTT, E. C. 1986. Financial Intermediary-Coalitions. *Journal of Economic Theory*, 38(2): 211-232. DOI: 10.1016/0022-0531(86)90115-8 [doi>Go to original source...](#)
15. CAPASSO, S. 2008. Stock market development and economic growth. In: *Domestic Resource Mobilization and Financial Development*. London: Palgrave Macmillan, pp. 10-38. [doi>Go to original source...](#)
16. CAPORALE, G. M., HOWELLS, P. and SOLIMAN, A. M. 2005. Endogenous growth models and stock market development: Evidence from four countries. *Review of Development Economics*, 9(2): 166-176. DOI: 10.1111/j.1467-9361.2005.00270.x [doi>Go to original source...](#)
17. CAPORALE, G. M. and SPAGNOLO, N. 2011. Stock market and economic growth: Evidence from three CEECs. *Economics and Finance Working Paper*, 11-16, Sep 2011. Brunel University.
18. COORAY, A. 2009. The financial sector and economic growth. *The Economic Record*, 85(1): 10-21. DOI: 10.1111/j.1475-4932.2009.00584.x [doi>Go to original source...](#)
19. COORAY, A. 2010. Do Stock Markets lead to Economic Growth? *Journal of Policy Modeling*, 32(4): 448-460. DOI: 10.1016/j.jpolmod.2010.05.001 [doi>Go to original source...](#)
20. DEMIRGÜÇ-KUNT, A. and LEVINE, R. 1996. Stock market development and financial intermediaries: Stylised facts. *The World Bank Economic Review*, 10(2): 291-321. DOI: 10.1093/wber/10.2.291 [doi>Go to original source...](#)
21. DEVEREUX, M. and SMITH, G. 1994. International Risk Sharing and Economic Growth. *International Economic Review*, 35(3): 535-550. DOI: 10.2307/2527072 [doi>Go to original source...](#)
22. DIAMOND, P. A. 1967. Cardinal Welfare, Individualistic Ethics, and Interpersonal Comparison of Utility: Comment. *The Journal of Political Economy*, 75(5): 765-766. DOI: 10.1086/259353 [doi>Go to original source...](#)
23. DÖKMEN, G., AHMET, A. Y. S. U. and BAYRAMOĞLU, M. F. 2015. Linkages Between Market Capitalization and Economic Growth: The Case of Emerging Markets. *Uluslararası Ekonomik Araştırmalar Dergisi*, 1(1): 39-48.
24. ENISAN, A. A. and OLUFISAYO, A. O. 2009. Stock Market Development and Economic Growth: Evidence from Seven Sub-Sahara African Countries. *Journal of economics and business*, 61(2): 162-171. DOI: 10.1016/j.jeconbus.2008.05.001 [doi>Go to original source...](#)
25. FARID, S. 2013. Financial integration in African emerging markets. In: *African Economic Conference 2013 "Regional Integration In Africa"*. October 28-30, 2013, Johannesburg, South Africa.
26. HABER, S. 2010. The Finance-Growth Nexus: Theory, Evidence and Implications for Africa. In: QUINTYN, M. and VERDIER, G. (EDS.). *African Finance for the 21st Century*. Palgrave Macmillan, pp. 11-32.
27. HAMILTON, J. D. 1986. State-space models. In: *Handbook of econometrics*. Vol. 4. Elsevier, pp. 3039-3080.
28. KIRCHHOFF, H. 2016. The Role of the Stock Market in Economic Development. *Pocket Sense*. [Online]. Available at: <https://pocketsense.com/role-stock-market-economic-development-5540.html> [Accessed: 2019, January 15].
29. KHAN, M. M. S. and SEMLALI, M. A. S. 2000. Financial development and economic growth: an overview. IMF Working Paper No. 0 - 209. International Monetary Fund. [doi>Go to original source...](#)
30. LEVINE, R. 1996. Stock markets: A spur to economic growth. *Finance and Development*, 33(1): 7-10. [doi>Go to original source...](#)
31. LEVINE, R. 1997. Financial development and economic growth: Views and agenda. *Journal of Economic Literature*, 35: 688-726.
32. LEVINE, R. and ZERVOS, S. 1998. Stock Markets, Banks, and Economic Growth. *American economic review*, 88(3): 537-558. [doi>Go to original source...](#)
33. LUCAS, R. 1988. On the Mechanics of Economic Development. *Journal of Monetary Economics*, 22: 3-42. DOI: 10.1016/0304-3932(88)90168-7 [doi>Go to original source...](#)
34. LUDVIGSON, S. and STEINDEL, C. 1998. How Important is the Stock Market Effect on Consumption? Research Paper No. 9821. Federal Reserve Bank of New York.
35. MANKIW, N. G., ROMER, D. and WEIL, D. N. 1992. A contribution to the empirics of economic growth. *The Quarterly Journal of Economics*, 107(2): 407-437. DOI: 10.2307/2118477 [doi>Go to original source...](#)
36. MAYER, C. 1988. New Issues in Corporate Finance. *European Economic Review*, 32(3): 1167-1188. DOI: 10.1016/0014-2921(88)90077-3 [doi>Go to original source...](#)
37. MCKINNON, I. R. 1973. *Money and capital in economic development*. Brookings Institution Press.
38. NGARE, E., NYAMONGO, E. M. and MISATI, R. N. 2014. Stock market development and economic growth in Africa. *Journal of Economics and Business*, 74: 24-39. DOI: 10.1016/j.jeconbus.2014.03.002 [doi>Go to original source...](#)
39. NACEUR, S. B. and GHAZOUANI, S. 2007. Stock Markets, Banks, and Economic Growth: Empirical Evidence from the MENA region. *Research in International Business and Finance*, 21(2): 297-315. DOI: 10.1016/j.ribaf.2006.05.002 [doi>Go to original source...](#)
40. ROMER, P. 1986. Increasing Returns and Long-run Growth. *Journal of Political Economy*, 9(5): 1002-1037. DOI: 10.1086/261420 [doi>Go to original source...](#)
41. SACHS, J. D. and WARNER, A. M. 1997. Sources of slow growth in African economies. *Journal of African economies*, 6(3): 335-376. DOI: 10.1093/oxfordjournals.jae.a020932 [doi>Go to original source...](#)

42. SALA-I-MARTIN, X. 1997. Transfers, social safety nets, and economic growth. Staff Papers, 44(1): 81-102. DOI: 10.2307/3867498. [doi>Go to original source...](#)
 43. SCHUMPETER, J. 1934. Capitalism, socialism, and democracy. New York: Harper & Row.
 44. SHAW, E. S. 1973. Financial deepening in economic development. New York: Oxford University.
 45. SOLOW, R. M. 1956. A contribution to the theory of economic growth. The quarterly journal of economics, 70(1): 65-94. DOI: 10.2307/1884513. [doi>Go to original source...](#)
 46. SWAN, T. W. 1956. Economic growth and capital accumulation. Economic record, 32(2): 334-361. DOI: 10.1111/j.1475-4932.1956.tb00434.x. [doi>Go to original source...](#)
 47. SEETANAH, B., SAWKUT, R., SANNASEE, V. and SEETANAH, B. 2008. Stock market development and economic growth in developing countries: Evidence from Panel VAR Framework. CSAE Working Paper Number 41.
 48. STIGLITZ, J. E. 1994. The Role of the State in Financial Markets. In: Proceedings of the World Bank Annual Conference on Development Economics, 1993. Washington, D. C.: World Bank. [doi>Go to original source...](#)
 49. STIGLITZ, J. and WEISS, A. 1984. Credit rationing in markets with imperfect information. American Economic Review, 71(3): 393-410.
 50. TACHIWOU, A. M. 2010. Stock Market Development and Economic Growth: The case of West African Monetary Union. International Journal of Economics and Finance, 2(3): 97-111. [doi>Go to original source...](#)
 51. WORLD BANK, 2016. World Development Indicators. The World Bank. [Online]. Available at: <http://data.worldbank.org/data-catalog/world-development-indicators> [Accessed: 2016, June 23].
 52. YARTEY, C. A. and ADJASI, C. K 2007. Stock market development in Sub-Saharan Africa: Critical issues and challenges. IMF Working Paper No. 7 - 209. International Monetary Fund. [doi>Go to original source...](#)
-

This is an open access article distributed under the terms of the [Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License \(CC BY NC ND 4.0\)](#), which permits non-commercial use, distribution, and reproduction in any medium, provided the original publication is properly cited. No use, distribution or reproduction is permitted which does not comply with these terms.

[Return to the content](#)