

**FINANCIAL DEVELOPMENT AND ECONOMIC GROWTH NEXUS: A STUDY OF
THE ROLE OF STOCK MARKETS AND BANKING INDUSTRY IN SELECTED
AFRICAN COUNTRIES**

By

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ABSTRACT

In this study, we investigate the impact of financial development on economic growth in 11 selected African countries over the period 1990 through 2009, with special emphasis on the contribution of stock market development. Besides, the study examines the relative importance of stock market and banking sector on economic growth; and the existence of supply leading hypothesis in the selected countries. In achieving these objectives, the study includes numerous control variables such as initial income, population growth rate, human capital, government expenditure, money supply, foreign direct investment, interest rates and inflation rate. The methodology is basically divided into two with GMM system approach and panel cointegration techniques utilized on panel data, while ARDL is employed in the time series analysis. The sample includes South Africa, Egypt, Nigeria, Morocco, Kenya, Botswana, Cote D'Ivoire, Tunisia, Ghana, Mauritius and Swaziland. The panel and time series results indicate that stock market, in terms of liquidity, is positively associated with economic growth (except in Morocco, Tunisia, Nigeria and Cote D'Ivoire). The findings further suggest that stock markets perform better than banking sector in most of the countries (with the exception of Botswana, Ghana and Nigeria). There is also evidence for supply leading hypothesis (with the exception of Cote D'Ivoire, Tunisia, Swaziland and Ghana). Generally, the implication is that financial development should be given priority with special emphasis on liquidity of stock markets in Africa. The study has numerous contributions. For instance, to our knowledge, this is first study to simultaneously consider the impact of stock markets and banks on economic growth in African countries.

Keywords: stock markets, banks, Africa, GMM, ARDL

ABSTRAK

Kajian ini menyiasat kesan pembangunan kewangan ke atas pertumbuhan ekonomi di 11 negara terpilih di Afrika dalam tempoh 1990 hingga 2009, dengan penekanan khas di atas sumbangan pembangunan pasaran saham. Di samping itu, kajian ini menguji kepentingan pasaran saham dan sektor kewangan ke atas pertumbuhan ekonomi; dan kewujudan hipotesis bekalan utama di negara-negara yang dipilih. Dalam mencapai objektif, kajian ini memasukkan pelbagai pemboleh ubah kawalan seperti pendapatan awal, kadar pertumbuhan penduduk, modal insan, perbelanjaan kerajaan, bekalan wang, pelaburan langsung asing, kadar faedah, dan kadar inflasi. Kaedah dalam kajian pada dasarnya dibahagikan kepada dua method iaitu pendekatan sistem GMM, dan panel kointegrasi yang digunakan ke atas data panel, manakala ARDL menggunakan analisis siri masa. Sampel kajian adalah Afrika Selatan, Mesir, Nigeria, Morocco, Kenya, Botswana, Cote D'Ivoire, Tunisia, Ghana, Mauritius dan Swaziland. Keputusan panel dan siri masa menunjukkan bahawa pasaran saham, dari segi mudah tunai, adalah positif dikaitkan dengan pertumbuhan ekonomi (kecuali di Marocco, Tunisia, Nigeria, dan Cote D'Ivoire). Selanjutnya, penemuan kajian menemukan bahawa pasaran saham memiliki prestasi yang lebih baik daripada sektor kewangan di kebanyakan negara (kecuali Botswana, Ghana, dan Nigeria). Terdapat juga bukti untuk hipotesis bekalan utama (kecuali Cote D'Ivoire, Tunisia, Swaziland, dan Ghana). Secara amnya, implikasi daripada kajian ini adalah bahawa pembangunan kewangan perlu diberi keutamaan dengan penekanan khas kepada kecairan pasaran saham di Afrika. Kajian ini mempunyai sumbangan yang banyak, sebagai contoh, untuk diketahui bahawa ini merupakan kajian pertama yang mengambil kira kesan pasaran saham dan kewangan ke atas pertumbuhan ekonomi di negara-negara Afrika.

Katakunci: pasaran saham, banks, Afrika, GMM, ARDL

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LIST OF ABBREVIATIONS

ADF	Augmented Dickey Fuller
AIC	Akaike Information Criterion
ARCH	AutoRegressive Conditional Heteroskedasticity
ARDL	Auto-Regressive Distributed Lag
BSE	Botswana Stock Exchange
BVRM	West Africa Stock Market
CSE	Casablanca Stock Exchange
DF-GLS	Elliott-Rothenberg-Stock Unit Root Test
ECM	Error Correction Model
ECT	Error Correction Term
EGX	Egyptian Exchange
GDP	Gross Domestic Product
GMM	Generalised Method of Moments
GNP	Gross National Product
GSE	Ghana Stock Exchange
HP	Hodrick-Prescott
JSE	Johannesburg Stock Exchange
OLS	Ordinary Least Squares
LM	Lagrange Multiplier
MENA	Middle East and North Africa
PP	Philip-Perron Unit Root Test
OECD	Organisation for Economic Co-operation and Development
SAFEX	South African Futures Exchange
SBC	Schwartz Bayesian Criterion
SEM	Stock Exchange of Mauritius
SMEs	Small and Medium Scale Enterprises
SSX	Swaziland Stock Exchange
TSE	Tunis Stock Exchange
TSLs	Two Stage Least Square
VAR	Vector Autoregression
VECM	Vector Error Correction Model
WDI	World Development Indicator