

Research article

Capital market development and economic growth in selected emerging African economies

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Abstract

Capital markets in many African economies remain relatively underdeveloped despite their growing importance in financial intermediation and economic transformation. This study examines the relationship between capital market development and economic growth in a panel of emerging African economies, namely Nigeria, Ghana, South Africa, Kenya, and Egypt, over the period 1986–2024. Economic growth is proxied by GDP growth rate, while capital market development is measured using market capitalization, value of shares traded, all share index, and number of listed securities. The study adopts a Panel Autoregressive Distributed Lag (Panel ARDL) model estimated using the Pooled Mean Group (PMG) technique to capture both short-run dynamics and long-run relationships across countries. The findings reveal that market capitalization, value of shares traded, and all share index exert positive and statistically significant ($p < 0.05$) effects on economic growth in the long run. However, the number of listed securities shows a negative long-run effect, indicating that expansion in listings without corresponding improvements in quality may hinder growth. The error correction term confirms convergence to the long-run equilibrium after short-run shocks. The study recommends reinforcement of market liquidity, institutional quality, and investor protection designs in emerging African economies.

Keywords: Capital market development, Economic growth, Emerging African economies, Market capitalization, Stock market liquidity, Panel ARDL; Financial development

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INTRODUCTION

Financial markets serve as platforms for the exchange of financial instruments such as stocks, bonds, currencies, and derivatives, facilitating the mobilization and allocation of financial resources within an economy (Adekunle et al., 2025). Within this system, the capital market occupies a strategic position by providing a mechanism for trading medium- and long-term financial securities, thereby supporting investment and productive activities (Adewuyi & Olowookere, 2011; Ikeobi, 2020). The nexus between capital market development and economic growth has long been established in economic literature, dating back to the work of Schumpeter (1911), who emphasized the importance of financial systems in fostering innovation and economic expansion.

Capital markets enhance growth by mobilizing savings, facilitating efficient allocation of resources for productive sectors such as manufacturing, and providing liquidity for investors (Beck et al., 2023; World Bank, 2025). In emerging African economies such as Nigeria, Ghana, South Africa, Kenya, and Egypt, financial-sector reforms have been implemented to strengthen financial systems, improve access to financial services, and promote financial-sector development. Evidence from selected African economies indicates that financial-sector reforms have been an important component of efforts made to enhance financial inclusion and socioeconomic development (Odularu et al., 2021). These reforms have occurred alongside broader initiatives aimed at liberalizing financial systems, strengthening financial institutions, and improving the efficiency of financial intermediation.

These reforms have contributed to advancements in market capitalization, value of shares traded, and stock market indices. South Africa maintains one of the most sophisticated and liquid capital markets in Africa, while Nigeria, Kenya, Egypt, and Ghana have witnessed growth through regulatory reforms, technological innovation, regional integration, and privatization programmes. Despite these advancements, capital markets in various African countries remain relatively underdeveloped compared with their global counterparts. Challenges such as low liquidity, limited investor participation, weak institutional frameworks, and macroeconomic instability continue to constrain their effectiveness. Consequently, the extent to which capital market development translates into sustained economic growth remains inconclusive in the empirical literature. While some studies report positive and significant relationships (Nyasha & Odhiambo, 2015; Adenuga, 2010), others find weak, negative, or insignificant effects (Ewah et al., 2009; Ibrahim & Alagidede, 2018).

Evidence from previous studies centres on country-specific analyses, especially Nigeria, thereby limiting comparative insights across emerging African economies. Structural problems such as shallow market depth, low liquidity, limited listings, weak institutional frameworks, and susceptibility to macroeconomic and political shocks continue to constrain capital-market efficiency (Adjasi & Biekpe, 2006; Allen et al., 2011). Thus, there is a growing need for a comprehensive panel study evaluating the relationship between capital market development and economic growth across selected emerging African economies over an extended period.

LITERATURE REVIEW

Economic growth refers to the sustained expansion in an economy's productive capacity and the corresponding increase in the production of goods and services over time (Ashraf & Weil, 2024; Ohanyere & Nnali, 2026). It is commonly measured by the annual growth rate of real gross domestic product (GDP), which captures changes in the volume of economic output after accounting for price

effects (Meh & Schmukler, 2025). Scholars have also conceptualized economic growth in terms of long-term increases in output and improvements in productive capacity (Jhingan, 2009).

Growth theories recognize the roles of capital accumulation, labour expansion, and technological progress in driving economic growth. However, economic growth in many developing economies remains vulnerable to financial instability, weak institutional structures, and external shocks (Abayomi & Yakubu, 2022; Udofia et al., 2022).

Capital market development refers to the growth, efficiency, and deepening of the segment of the financial system where long-term financial instruments such as equities and bonds are traded (Lambe et al., 2021; Mateev et al., 2023). The capital market facilitates the mobilization and allocation of long-term funds for productive investments, thereby supporting economic development (Onwe et al., 2019). Through its intermediation role, the market enhances liquidity, supports capital formation, and provides investment opportunities.

To operationalize capital market development, this study adopts four indicators: market capitalization, value of traded shares, all share index, and number of listed securities. Market capitalization measures market size and depth; value of traded shares captures market liquidity; the all share index reflects stock market performance; and the number of listed securities measures market breadth and diversity.

Theoretical Review

This study is anchored on three key theoretical perspectives, with the Solow growth model serving as the core theory and augmented by the efficient market hypothesis and capital market theory.

The Solow Growth Model, developed by Robert Solow and Trevor Swan (1956) explains long-run economic growth as a function of capital accumulation, labour growth, and exogenous technological progress. Within this framework, capital accumulation contributes to productive capacity, while technological progress provides the basis for sustained improvements in output.

The Efficient Market Hypothesis (EMH), advanced by Fama (1970), posits that financial markets are informationally efficient, meaning that asset prices fully reflect all available information. This implies that well-functioning capital markets allocate resources efficiently and enhance investment decisions, although inefficiencies in developing economies may weaken this role in developing countries (Osakwe et al., 2020; Akintola et al., 2020).

Capital Market Theory, rooted in the work of Sharpe (1964), explains how investors make optimal portfolio decisions based on risk-return trade-offs. It highlights the role of capital markets in pricing assets, mobilizing savings, and allocating resources efficiently for long-term investment, thereby contributing to economic development.

Empirical Review

The empirical literature on capital market development and economic growth highlights a dynamic and varied relationship. Evidence from Nigeria and other African economies generally indicate that market capitalization, value of traded shares, and stock-market performance can contribute positively to economic growth, particularly over the long run (Olusegun & Ajao, 2024; Dinipre, 2023; Ugbogbo & Aisien, 2019; Ukoh, 2024).

Cross-country and panel studies likewise reveal that a boost in capital market can stimulate economic growth by enhancing financial intermediation and resource allocation (Antwi et al., 2021; Khetsi & Mongale, 2015; Ugbaja, 2025). Stock market liquidity and breadth may also contribute to

growth by reducing transaction costs and promoting access to long-term finance (Gachugu et al., 2022; Tachiwou, 2010).

Notwithstanding this evidence, vital contradictions exist. Some studies suggest a negative or insignificant relationships between market capitalization and economic growth, while others find inconsistent effects for traded value and stock-market indicators (Agu, 2018; Appiah et al., 2020; Ibrahim & Mustafa, 2023; Obiakor, 2016; Popoola et al., 2017).

The literature also shows different findings regarding causality. Some studies support the finance-led growth hypothesis (Acha & Akpan, 2019), whereas others support growth-led finance (Kamongo & Olweny, 2022). Other evidence shows no significant causal relationship between financial development and economic growth (Osamwonyi & Kasimu, 2013).

These inconsistencies indicate that the relationship between capital market development and economic growth is not necessarily global but may rely on country-specific institutional and economic circumstances. The literature further shows important limitations in the framework. Existing studies are concentrated in a relatively small number of countries, particularly Nigeria, while comparatively fewer studies provide multi-country evidence covering Ghana, Kenya, Egypt, and South Africa. This limits the understanding of the heterogeneous effects of capital market development across different institutional and economic environments.

Furthermore, relatively limited focus has been given to institutional quality, regulatory frameworks, macroeconomic stability, and political conditions as factors affecting the effectiveness of capital markets. Evidence indicate that the growth-enhancing effects of capital market development may depend on the quality of the institutional and macroeconomic environment (Eshun & Tweneboah, 2024). There is also limited attention to structural transformation and sectoral linkages, particularly how capital market development translates into real-sector investment, industrialization, and employment generation.

RESEARCH METHOD AND MATERIALS

The study employed an ex-post facto research design because it relies on already existing data on the indicators of capital market development and economic growth, which are observed without manipulation by the researcher (Ejaigbe et al., 2024).

Theoretical Framework

The model for this study is grounded in the Solow growth model, which postulates that economic growth responds to capital accumulation, labour, and productivity, with support from Efficient Market Hypothesis (EMH) and consistent with Capital Market Theory (CMT). Capital market development variables is factored in as a determinant of productivity and growth.

Model Specification

Based on the theoretical framework and the objectives of this study economic growth is specified as a function of market capitalization, value of shares traded, all share index and number of listed securities, gross fixed capital formation, and population growth rate.

The functional form is specified as:

$$GDPGR = f(MCAPit, VTSit, ASLit, NLISTit, GFCFit, PGRit)$$

Accordingly, the econometric model is expressed as:

$$GDPGR_{it} = \beta_0 + \beta_1 MCAP_{it} + \beta_2 VST_{it} + \beta_3 ASI_{it} + \beta_4 NLST_{it} + \beta_5 GFCF_{it} + \beta_6 PGR_{it} + \mu_i + \epsilon_{it}$$

where $GDPGR_{it}$ = Gross Domestic Product Growth Rate (a proxy for economic growth). $MCAP_{it}$ = Market Capitalization, VST_{it} = Value of shares traded, ASI_{it} = All share index, $NLST_{it}$ = Number of listed Securities, $GFCF_{it}$ = Gross Fixed Capital Formation and PGR_{it} = **Population Growth Rate. The subscripts i and t denote country and year, respectively.**

Given the mixed orders of integration among the variables, the study employs the Panel Autoregressive Distributed Lag (PARDL) framework estimated using the Pooled Mean Group (PMG) estimator to examine the short-run and long-run relationships between capital market development and economic growth. The PMG estimator permits short-run coefficients and error-correction dynamics to vary across countries while imposing homogeneity on the long-run coefficients (Pesaran et al., 1999). The panel consists of five emerging African economies: Nigeria, Ghana, South Africa, Kenya, and Egypt, over the period 1986–2024.

RESULT PRESENTATION AND DISCUSSION

Pre-estimation Tests

Table 1. Descriptive Statistics and Unit Root Test Results

Variable	Mean	Std. Dev.	CIPS Statistic	Order of Integration
Economic Growth Rate	3.9349	2.7277	-3.8969***	I(0)
Market Capitalization	48.9802	77.2093	-2.9200***	I(0)
Value of Traded Shares	13.204	22.7044	-2.8545***	I(0)
Number of Listed Securities	235.7846	249.4325	-3.1791***	I(0)
All Share Index	4070.343	11542.96	-1.6042	I(1)
Population Growth Rate	2.2793	0.6046	-1.1946	I(1)

*** Significant at 5% level.

Source: Author's computation from E-Views 13, based on the CIPS procedure of Pesaran (2007).

The descriptive statistics results show moderate and relatively stable economic growth (3.93%) across selected emerging African economies with a median of 4.19% across the panel with significant volatility in financial market indicators. Results from the unit root tests reveal that the variables exhibit a mixed order of integration [I(0) and I(1)], validating the use of the PMG-ARDL approach. The CIPS test is particularly suitable for the present cross-country panel because it accounts for cross-sectional dependence by integrating cross-sectional averages into the unit-root regressions (Pesaran, 2007). The mixed order of integration, with none of the variables integrated beyond I(1), supports the application of the Panel ARDL/PMG approach.

Long-Run Relationship and Error Correction Results

Table 2. Cointegration and Error Correction Results

Test/Variable	Statistic/Coefficient	Prob. Value	Decision/Interpretation
Panel PP-Statistic	-5.372	0.0000	Cointegration Exists
Group PP-Statistic	-5.263	0.0000	Cointegration Exists
Error Correction Term (COINTEQ)	-0.5377	0.0001	Significant and Negative
Country-Specific Speed of Adjustment			
Country	COINTEQ	Prob.	Speed of Adjustment
Egypt	-0.7364	0.0001	73.64%
Ghana	-0.4468	0.0117	44.68%
Kenya	-0.745	0.0004	74.50%
Nigeria	-0.7248	0.0006	72.48%
South Africa	-0.0355	0.0796	3.55%

Country-Specific Speed of Adjustment. Source: Researcher's Computation (2025)

This co-integration test results indicates that economic growth and capital market indicators move together in the long-run, despite short-term fluctuations. The significance of the group statistic further suggests that this relationship holds across countries, allowing for heterogeneity. The value of -0.537700 from the Error Correction Result indicates that approximately 53.77% of disequilibrium is corrected annually, implying a relatively fast adjustment to long-run equilibrium. Country-level estimates reveal heterogeneity in adjustment speeds, with Kenya, Nigeria, and Egypt adjusting rapidly (>70%), while South Africa adjusts slowly (3.55%), reflecting structural differences in market dynamics.

PMG-ARDL Long-Run Estimation and Post-Estimation Diagnostics

Table 3. PMG-ARDL Long-Run Estimates and Diagnostic Tests

Variable	Coefficient	t-Statistic	Prob.	Decision
Market Capitalization	1.0535	3.4756	0.0018	Positive and Significant
Value of Traded Shares	0.0958	3.1818	0.0017	Positive and Significant
Number of Listed Securities	-0.005	-3.0902	0.0023	Negative and Significant
All Share Index	9.331	2.3261	0.0211	Positive and Significant
Population Growth Rate	-1.5089	-2.7038	0.0075	Negative and Significant
Constant	7.3163	4.7877	0	Significant
Diagnostic Tests				
Test	Statistic	Prob.	Decision	
Hausman Test	Homogeneous PMG Preferred	> 0.05	Accept H0	
Wald Test (F-statistic)	9.0448	0.007	Reject H0	
Wald Test (Chi-square)	11.2238	0.0002	Reject H0	

Source: Researcher's Computation (2025)

The PMG-ARDL results indicate a significant long-term relationship between capital market development indicators and economic growth. Market capitalization ($\beta = 1.0535$, $p < 0.01$), value of traded shares ($\beta = 0.0958$, $p < 0.01$), and All Share Index ($\beta = 9.3310$, $p < 0.05$) all impacts positively and statistically significant influence on economic growth. Conversely, the number of listed securities and population growth rate exhibit significant negative effects. These findings support the "finance-led growth" hypothesis which align with theoretical expectations that financial development facilitates growth through capital accumulation and effective allocation. The Hausman test supports the PMG estimator. All p-values exceed 0.05, indicating long-run homogeneity across countries. This validates the assumption of a common long-run relationship despite short-run heterogeneity (Pesaran et al., 1999). The Wald test also indicates that the explanatory variables are jointly significant in explaining economic growth. This result reinforces the validity of the model and supports the capital market-led growth hypothesis, suggesting that financial and real-sector variables collectively drive economic performance.

Short-Run Dynamics

D(NUMBER_OF_LISTED_SECURITIES): The current change, d(number of Listed Securities), is positively significant (Coefficient: 0.038724, Prob.: 0.0428). An increase in the change in listed securities provides a short-term boost to the change in economic growth.

D(ALL_SHARE_INDEX (-1)): The one-period lagged change in the ALL_SHARE_INDEX is negatively significant (Coefficient: -0.043368, Prob.: 0.0522). While its probability is slightly above the strict 0.05 cutoff, it suggests that a past increase in the stock index's change might lead to a modest reduction in the current change in economic growth (perhaps due to profit-taking or a temporary market bubble correction).

All other short-run and lagged short-run dynamic coefficients are not statistically significant (Prob. > 0.05 or > 0.10 for marginal cases). This implies that, for the average cross-section, the short-term fluctuations in Market Capitalization, Value of Traded Shares, and population growth rate do not have an immediate or lagged significant impact on the current change in the Economic Growth Rate, beyond the effect captured by the error correction term.

Discussion of Findings

The findings provide strong empirical support for the role of capital market development in promoting economic growth in emerging African economies. Empirical findings indicate that market capitalization exerts a positive and significant impact on economic growth in emerging African economies ($\beta = 1.0535$; $p < 0.01$), indicating that larger and more developed stock markets enhance capital mobilization and investment efficiency. This aligns with theoretical expectations and prior empirical evidence in Africa (Adjasi & Biekpe, 2006; Ferreira et al., 2022). Overall, the result underscores the importance of deep and well-capitalized stock markets in driving long-run growth.

Similarly, the value of traded shares, a proxy for stock market liquidity, is found to have a positive and significant effect on economic growth ($\beta = 0.0958$; $p < 0.05$). Similarly, the value of traded shares, which represents stock market liquidity, has a positive and statistically significant effect on economic growth ($\beta = 0.0958$; $p < 0.01$). This indicates that higher market liquidity promotes the mobilization and allocation of financial resources and is associated with improved economic performance. The result is consistent with evidence reported by Gachugu et al. (2022).

The All-Share Index also shows a strong positive and significant relationship with economic growth ($\beta = 9.3310$; $p < 0.05$), suggesting that overall market performance plays a catalytic role in economic expansion. It further reflects investor confidence and enhances firms' ability to raise capital

for productive activities. This finding supports endogenous growth theory and financial intermediation arguments, which posit that efficient capital markets promote innovation and capital formation. The finding is consistent with previous evidence that financial-market development and stock-market performance can contribute to economic growth (Antwi et al., 2021; Nyasha & Odhiambo, 2015).

Contrary to conventional expectations, the number of listed securities exhibits a statistically significant negative relationship with economic growth in the long run. This suggests that increasing the quantity of listed firms without improving market depth and quality may lead to inefficiencies. The finding may indicate that an increase in the number of listed firms without corresponding improvements in market activity and investment capacity can dilute available investment resources. In this context, the quality and effectiveness of listings may be more important for economic growth than the number of listed securities alone. This interpretation is broadly consistent with evidence that financial development does not automatically translate into economic growth when structural and institutional constraints persist (Ibrahim & Alagidede, 2018).

The negative relationship between population growth rate and economic growth further indicates structural challenges, including unemployment, underemployment, and low productivity, which may limit the growth-enhancing potential of labour expansion. This finding aligns with classical and neoclassical growth concerns that population growth, without corresponding capital accumulation and technological progress, can dilute per capita income. It also supports contemporary empirical findings in African economies (Udofia et al., 2022; Abayomi & Yakubu, 2022), which show that demographic expansion without structural transformation can constrain growth.

Overall, the findings indicate that capital market development contributes to long-run economic growth, but the magnitude and direction of its effects vary across individual indicators. In particular, market size, liquidity, and market performance appear to provide stronger growth benefits than expansion in the number of listed securities.

CONCLUSION

This study examined the relationship between capital market development and economic growth in emerging African economies over the period 1986 to 2024. The findings provide strong empirical support for the capital market-led growth hypothesis, confirming that key capital market indicators such as market capitalization, value of shares traded, and the All-Share Index are significant drivers of long-run economic growth.

Despite these positive outcomes, structural challenges such as low liquidity, weak institutional frameworks, and market volatility remain prevalent. Importantly, the negative effect of the number of listed securities suggests that mere expansion in the number of listed firms, without corresponding improvements in market depth and quality, may hinder growth through capital dilution and inefficiencies. Consequently, the study concludes that while capital markets are vital for economic expansion, their effectiveness depends largely on the quality, efficiency, and regulatory strength of the financial system.

Based on the findings, the study suggests that governments should focus on deepening capital markets by improving market liquidity, strengthening regulatory and corporate governance frameworks, reducing transaction costs, and encouraging quality firms to access the capital market. Greater emphasis should also be placed on improving market infrastructure and investor confidence to ensure that capital market expansion translates into productive investment and sustainable

economic growth. Overall, policies should prioritize the quality and efficiency of capital market development rather than merely increasing the size or number of listed securities.

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