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IMPACT OF STOCK MARKET DEVELOPMENT ON ECONOMIC GROWTH IN KENYA: A SYSTEMATIC REVIEW

[1]Charles Katua Kithandi, [2]Christine Moragwa, [3]Antony Mutunga

[1]Faculty of Business & Economics – Daystar University
[2]School of Business & Economics – Daystar University
[3]School of Business & Economics – Daystar University

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***Abstract*: This study aims to analyze the relationship between the stock market development and economic growth in Kenya This study uses a systematic review and analysis of relevant empirical reviews from previous studies. The study analyses data from five previous studies done in Kenya between the period 2017 -2021.**

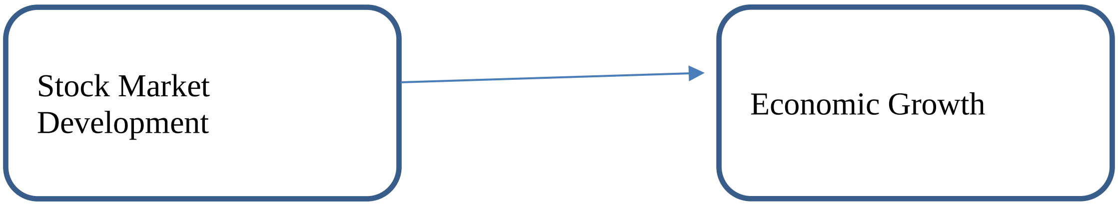
The findings of the systematic review show that while an expanding stock market can cause economic growth to be impacted positively, this relationship is not straightforward and is affected by a variety of factors, including political stability, government policies, financial infrastructure, and the availability of credit and foreign investment. The study also identifies several challenges that have hindered stock market development in Kenya, including a shortage of liquidity, limited participation by domestic investors, weak corporate governance, and inadequate regulatory oversight. Based on these findings, the study provides evidence-based recommendations for policymakers to promote stock market development in Kenya and enhance its contribution to economic growth. These recommendations include improving the regulatory framework, enhancing transparency and disclosure requirements, increasing investor education and awareness, and strengthening corporate governance practices. The study concludes that stock market development has a significant positive effect on economic development in Kenya.

***Keywords:* Stock market development, Economic growth, stock market.**

1. INTRODUCTION

The stock market, which is a vital component of the Kenyan economy and makes a substantial contribution to the country's development and economic growth, Kipchumba (2017). The development of the stock market could have a profound effect on the entire economy in general. The Kenyan stock market is among the subsets that have shown substantial growth over the years, and this growth is largely attributed to the various reforms that have been put in place to govern stock trading. Over the years, the Kenyan stock market has grown in terms of its depth and breadth, with an increasing number of companies issuing shares and bonds on the market. The development of a robust stock market has led to improved access to capital, allowing companies to raise funds not only locally but also internationally. As a result, businesses can undertake more significant projects, which would have otherwise been unattainable, thereby creating employment opportunities and driving growth. The stock market provides a platform for investment and enables investors to take ownership and claim a part of the company's profits, thus promoting entrepreneurship and fostering competition in the economy. By investing in the stock market, local investors can participate in the country's economic growth, diversify their investment portfolios, and mitigate risks by investing in different sectors of the economy.

Another significant impact of the stock market is the increased liquidity of assets. Stockholders can quickly sell or purchase securities at the prevailing prices, enabling the efficient allocation of resources and helping to assure that companies have access to the capital necessary to expand their operations. Additionally, listing on the stock market brings about transparency and financial discipline that are integral to managing investments. In conclusion, the development of the Kenyan stock market is crucial to the state's economic growth and development. It promotes entrepreneurship, attracts foreign investment, and enhances market efficiency. By enabling companies to access capital and providing a platform for investment, the stock market shows a significant part in fuelling the economy's growth. Therefore, the government and other stakeholders must continue to implement strategies that foster the growth of the stock market and promote the participation of traders and investors.). The research conceptual framework will be as shown below:



Ho: Stock Market development has no effect on economic growth in Kenya.

Fig 1

2. LITERATURE REVIEW

2.1 Theoretical Literature Review

2.1.1 The endogenous growth theory

This theory developed by Ramsey (1928) and Solow (1956), claims that more investment in human capital and a greater rate of innovation may both lead to increases in productivity. It underlines that the primary driver of technological advancement is private speculation in research and development. The performance of economic growth is correlated with monetary development, technological advancement, and earnings distribution, according to leading experts in growth model.

According to Romer (2011), households, investments in human capital, and innovation all have a significant impact on how quickly an economy expands. Economic development is typically viewed to be the result of internal rather than external causes. In order to promote economic growth, this model focuses on the positive externalities and spillover advantages of a knowledge-based economy. The exogenous growth model, in contrast, places more emphasis on the significance of technological processes as a separate external scientific process from structural change. The main distinction between the exogenous and endogenous growth models is that the latter does not expose the capital stock's broad definition to falling returns (Fry, 1997). Growth therefore depends on an investment ratio that is positive. Claims over time, policy decisions made by various governments will have an impact on how quickly the economy grows. This suggests that open, competitive, and innovative policies will encourage growth.

2.1.2 Finance Growth theory

The cornerstone for this theory, which contends that a healthy financial system will promote technical advancements, was set by Joseph Schumpeter in 1912. Building on the theory, Goldsmith (1969) claims that high levels of capital accumulation could be facilitated by and result from developing domestic financial markets. Ansari (2002) looked at how money, government spending, and financial development affected Malaysia's national income. It hypothesizes how financial markets influence economic growth by releasing savings, cutting transaction costs, managing risk, vetting and monitoring investment projects, and mobilizing capital. It emphasizes on the importance of monetary market development for economic growth. Financial intermediation between final lenders is also made possible by financial markets in an efficient manner.

When transaction costs are reduced and financial intermediation efficiency is maintained, market liquidity increases. This aids the study's attempt to explain how strong market performance, more market turnover, and rising share prices all contribute to economic growth. A market's improved liquidity is indicated by a growth in the volume of shares traded and their overall value on the market. A market's increased activity and total share value indicate that it is sufficiently liquid to accommodate growing trading activity at low transaction costs, which results to an efficient transfer of resources from savers to investors and a well-functioning market.

2.1.3 Neoclassical model

This theory often referred to as Solow growth model, is constructed upon the fundamental neoclassical foundations of long-term economic expansion (Solow and Swan, 1956). Productivity, capital accumulation, population expansion, and technical innovation are the four main elements that this growth model employs to explain economic growth. According to this theory, long-term economic growth is exogenously determined, meaning that it is influenced by variables other than those specified by the fundamental model. consistent constants for labor (L) and capital (K). Hence, output (Y) This theory's underlying concept is the production function, which includes a function of capita in the equation (K). The hypothesis of declining returns to capital accumulation is required for the production function. This suggests that if there were no technological breakthroughs, providing labor with more capital goods would eventually result in duplicate capital investment.

The long-run convergence to a steady state, which depends on technological advancement and the pace of labor force increase, is another fundamental tenet of the neoclassical growth model. According to this, nations with greater savings rates than others would often see quicker economic progression. In the very long run, as countries approach the steady state, the function of capital accumulation in this paradigm is less important than technical advancement. The neoclassical growth model's primary goal is the significance of technical innovation for long-term growth, which counteracts the consequences decreasing returns that have an effect on growth the growth of the economy in terms of both capital accumulation and labor productivity gains within an economy.

2.1.4 Tobin's Q theory.

James Tobin's Tobin's Q Theory tries to explain how capital stock and investment are related. According to the theory, businesses base their investment choices on the value that customers are willing to pay for their company's assets in comparison to the expense of replacing them.

2.2 Empirical Literature Review

Empirical literature review has been described by Zikmund, Babin, Carr, and Griffin (2010) as a search of the published works that provide relevant empirical results to the topic being studied. It involves a comprehensive survey of the previous inquiries related to a research question. The empirical review of this study allowed the researcher to bring out the study's intellectual and historical context, clearly indicating the study's importance. Musyoka et al (2018) .'s investigation and analysis of yearly data from 1992 to 2011 in Kenya focused on the relationship between stock market expansion and economic growth. It used the Ordinary Least Squares (OLs) Method for regression and error correction models (ECM) The market capitalization, equity turnover, and the total number of shares traded were employed as indicators of stock market development, and the GDP per capita growth rate served as a stand-in for the economic growth rate. The findings of the counteraction test demonstrated a long-term link between stock market development indicators. The growth of the stock market has an impact on economic expansion because it creates a pool of inexpensive investment funds according to the study.

Kanyatta and Kagiri (2017) sought to determine the connection between Kenya's stock market expansion and country's economic expansion. The report focused on 65 Nairobi Stock Exchange-listed companies and covered the years 2006 to 2015. A positive correlation between economic growth and stock market capitalization, liquidity, index, and financial depth was found by the Granger and causality hypothetical tests. Financial strength and economic growth are substantially correlated, according to the regression coefficients results. The study came to the conclusion that because stock market development variables are related to and cause economic growth, investors should be encouraged to do so.

The statistical package for social sciences was employed, according to Indangasi (2017) study, to investigate the link between Economic Growth and Stock Market Performance in Kenya. (SPSS) Between 1997 and 2015, secondary data from NSE databases and yearly real Gross Domestic Product (GDP) figures were gathered from the Central Bank of Kenya (CBK). Tests for normality and autocorrelation were performed. The econometric research resulted in the estimation of the following model, which shows the relationship between real quarterly stock prices and real quarterly GDP. The findings demonstrated a positive and substantial relationship between GDP and NSE performance, with GDP driving up the

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performance of the stock market. In order to maximize the return on their stock market investments, the study advises investors to consider the GDP performance when deciding whether to invest..

Sang (2021) investigated the link between Kenya's economic development and the performance of the stock market. A causal analysis was performed on the relationship between Kenya's economic growth from 2010 to 2020 and the performance of the stock market. The complete 63 business entities that traded on the NSE between 2010 and 2020 comprised the target population. Secondary data from the NSE, the Kenya National Bureau of Statistics (KNBS), the Capital Markets Authority (CMA), and World Bank statistics were gathered yearly for ten years. The results show a causal relationship between stock market capitalization, stock traded value, and stock turnover ratio and economic growth.

A study by Muriithi (2016) examined the impact of stock market development indicators on Kenya's economic growth from 2000 to 2015, including market capitalization, the total value of shares traded, and the NSE20 share index. The analysis of causality using the Johansen cointegration test, the vector error correction model (VECM), and STATA statistical software revealed that both short- and long-term connections were positive and statistically significant. The VEC model showed that stock market Development indicators had a short-term relationship with economic growth, with the model speed to adjustment to long term equilibrium being at 75.85%. Market capitalization had a long-term negative and considerable impact on economic growth in both the first and second lags, but the total value of shares dividends had no such impact. For the first lag, Shares Aversion to Economic Growth was favorable The study recommended that capital markets regulators should formulate policies to ensure the stability of capital markets liquidity, and stock market performance, and allocate funds to productive investments to ensure increased performance and efficiency of the stock markets.

3. RESEARCH METHODOLOGY

The study adopted descriptive research design. This study used a sample of five studies done between 2017 – 2021.

4. PRESENTATION AND DISCUSSION OF RESULTS

The article examines the link between stock market expansion and economic development in Kenya. Aduda et al. (2013) investigated the influence of capital market expansion on economic development in Kenya and realized a positive linkage between the two variables. They recommend that to encourage economic development in Kenya, policymakers should give the top priority to the development of capital markets. Musyoka et al. (2018) and Kenyatta and Kagiri (2017) used NSE as a case study to study whether stock market developments affect growth of the economy. They noted a connection between stock market expansion and growth of the economy and advised policymakers to focus on stock market expansion as a technique to promote Kenyan economic development. Indangasi (2017) examined the link between economic expansion and performance of the stock market in Kenya and found a positive connotation between the two variables. He provided a suggestion that policymakers should promote stock market development to improve the growth of the economy in Kenya. Taken together, these studies show that stock market growth has a progressive outcome on economic progress in Kenya and that policymakers should focus on developing capital markets, improving corporate governance and financial information to drive stock market progress and economic development. 4. Conclusions and recommendations

The authors examine the connection between Kenya's stock market growth and expansion of the economy with an emphasis on the NSE. The effect of Kenya's capital market strengthening on the development of economy between 1988 and 2008 is examined by Aduda et al. (2013). The study discovered a link between Kenya's capital market development and economic expansion. Kenya's stock market development effect on economic development between 2000 and 2015 is examined by Musyoka et al. (2018). The study also discovered a link between Kenya's stock market expansion and country's economic expansion. Using companies registered on the NSE, Kenyatta and Kagiri (2017) determined the connection amid the stock market growth and economic growth. As per the study, there is a positive relationship between Kenya's stock market growth and economic expansion.

Indangasi (2017) examines the correlation between growth in economy and performance in stock market in Kenya from 1997 to 2014. The study discovered a bi-directional underlying affiliation between performance of Kenyan stock market and growth of the economy. These articles collectively imply that Kenya's stock market growth and economic expansion are closely related. To completely grasp the relationship between the two variables, more research is necessary as it's possible that other variables have effect on economic growth. The expansion of Kenya's stock market boosts financial intermediation, liquidity, and the mobilization of savings, all of which are beneficial for economic growth. The stock market gives businesses a place to raise money and launch investment initiatives, which fosters economic growth. An efficient stock market makes it simple for investors to acquire and sell assets, increasing the liquidity of the financial system and promoting investment. The rise of the stock market improves corporate governance and efficiency, which supports long-term economic expansion. A thriving stock market may draw in international investment, serving as a source of inflows of foreign money and promoting economic expansion.

5. CONCLUSIONS

In conclusion, this theoretical paper review highlights the significant impact of stock market growth on the development of the economy in Kenya. This study concludes that there is of a positive relationship between the stock market development and economic growth in Kenya, where a well-functioning stock market can enhance savings mobilization, facilitate capital formation, and improve the efficiency of resource allocation. Additionally, the role of government policies and regulations is important in promoting the improvement of the stock market, which can help to boost the economy's performance. However, despite the potential benefits of stock market development, there are some challenges that hinder the growth of the stock market in Kenya, such as the absence of investor education, weak corporate governance, and low market liquidity.

6. RECOMMENDATIONS

Based on the research findings, the study recommends that in order to address the issues affecting stock market development and foster an environment that will sustain the expansion of the stock market, policymakers, market regulators, and other stakeholders must work together. Overall, this research highlights how crucial the growth of Kenya's stock market is to foster economic progress. It is imperative that policymakers and other stakeholders prioritize the development of the stock market as a key driver of the growth of the economy and development in the country.

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