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The Impact of the Stock Market on Economic Growth

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Contents

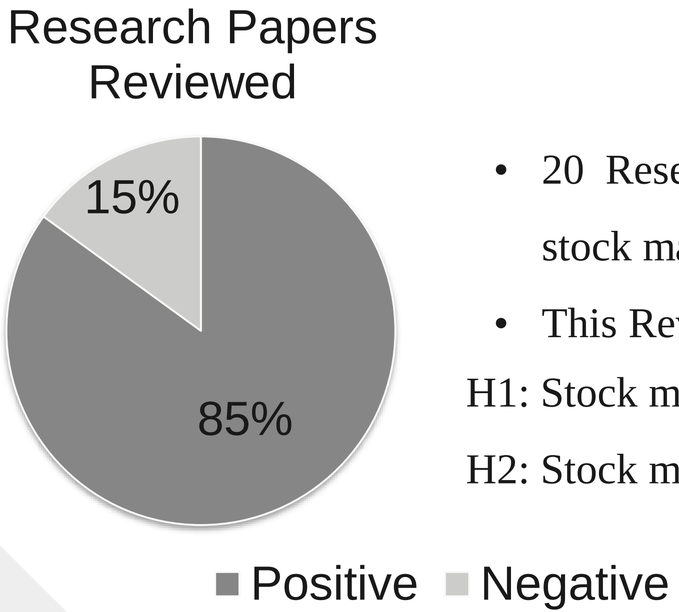
Introduction

- Nowadays efficient stock markets are crucial for economic development and growth.
- However, there are controversies between researches, if the stock market has a positive or a negative impact on economic growth.
- This research investigates that impact using the Gulf countries (GCC) as a model.

Research Objectives

- Examining the impact of the stock market on the economic growth of the Gulf countries, by testing which of the variables has the most effect.
- To provide policy implications that would help in setting policies in favor of creating well diversified economy.

Literature Review and Hypothesis



- 20 Research Papers have been reviewed on the topic of stock markets impact on economic growth.
- This Review led to generating two hypothesis:

H1: Stock market has a positive effect on economic growth

H2: Stock market has a negative effect on economic growth

Data Collection Model

Variable	Definition
RGDP	Real Gross Domestic Product (Inflation adjusted GDP reflecting the goods value of an economy)
GDP Growth	A rate that compares the change in a country's economic output yearly.
GDP per Capita	The countries GDP divided by the countries population
MC	Market Capitalization (The markets value of publicly traded company shares)
STO	Turnover Ratio of Stocks Traded (stock liquidity)
LS	Total Listed number of Domestic Companies
TVL	Total value of Stocks traded (as a percentage of GDP)
PC (dummy variable)	Political Conflict of 2011-2012
GFC (dummy variable)	Global Financial Crises of 2007-2009
OR	Oil rent (The difference between the value of crude oil production at regional prices and total costs of production)

Source: The World Bank Outlook

Data Collection Model

- The secondary data have been collected from the World Bank Outlook for the periods (1993-2019).
- Three equations have been formulated to test the three dependent variables, where equation 1 is the formula for real GDP, while equation 2 is for GDP growth, and lastly, equation 3 which is for GDP per capita.

$$RGDPlt = a0 + \beta 1MCit + \beta 2STOit + \beta 3LSit + \beta 4TVLit + \beta 5ORit + \beta 6PCit + \beta 7GFCit + \varepsilon$$

$$GDPGlt = a0 + \beta 1MCit + \beta 2STOit + \beta 3LSit + \beta 4TVLit + \beta 5ORit + \beta 6PCit + \beta 7GFCit + \varepsilon$$

$$GDPPClt = a0 + \beta 1MCit + \beta 2STOit + \beta 3LSit + \beta 4TVLit + \beta 5ORit + \beta 6PCit + \beta 7GFCit + \varepsilon$$

Data Collection Model

- All variables were firstly run through a correlation test to ensure that they are all independent and do not have a relationship with each other, then they were analyzed via the OLS method, which is a type of linear regression that was also used in the following papers, (Sylvester, and Enabulu, 2011), (Aslam, and Afshan, 2016) and (Olabisi, et. al., 2017) .
- Eight models with different dropped variables were created to test the impact of the stock market on economic growth.

Empirical Results

Correlation test results:

The results show that there are correlations between the variables (LS and OR) and the variables (STO and TVL)

Variable 1	Variable 2	Correlation
OR	LS MC TVL STO	0.576 -0.231 0.431 0.492
LS	MC TVL STO OR	-0.165 0.072 0.379 0.576
MC	LS TVL STO OR	-0.165 0.274 -0.005 -0.231
STO	LS MC TVL OR	0.379 -0.005 0.900 0.492
TVL	LS MC STO OR	0.072 0.274 0.900 0.431

Empirical Results

Real GDP

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
MC	1270*** 2.927	9209* 1.853	7254 1.576	6901 0.122	1160*** 2.700	6254 1.350	-2644 -0.046	7643 1.554
STO	2883*** 5.109	-	4425*** 6.818	-	2888*** 5.191	4285*** 6.599	-	-
LS	1389*** 4.288	1659*** 4.818	-	-	1428*** 4.420	-	-	1684*** 4.881
TVL	-	2530*** 3.174	-	4356*** 4.370	-	-	4192*** 4.192	2573*** 3.224
OR	-	-	-2.256* -1.684	-1.200 -0.781	-	1343 -1.302	-6492 -0.425	-
PC	9.346* 1.539	1.184* 1.810	1.028 1.573	1.327* 1.817	-	-	-	-
GFC	-4.093 -0.794	-1.148 -0.208	-7.340 -1.447	-3.897 -0.694	-	-	-	-
R-Square	50%	41.4%	40.7%	25.4%	48%	37.2%	22%	39%

Empirical Results

GDP Growth

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
MC	0.004 0.293	-9.656 -0.007	0.024* 1.796	0.028* 1.840	0.002 0.130	0.023* 1.689	0.026* 1.723	-0.003 -0.192
STO	0.014 0.817	-	-0.021 -1.114	-	0.017 0.962	-0.016 -0.851	-	-
LS	-0.016 -1.573	-0.016 -1.642	-	-	-0.016 -1.627	-	-	-0.016 -1.667
TVL	-	0.024 1.036	-	-0.021 -0.784	-	-	-0.017 -0.654	0.025* 1.116
OR	-	-	0.098** 2.476	0.093** 2.282	-	0.095** 2.432	0.092** 2.312	-
PC	1.671 0.876	1.747 0.922	1.539 0.796	1.395 0.723	-	-	-	-
GFC	0.321 0.198	0.383 0.240	2.156 1.435	1.985 1.338	-	-	-	-
R-Squared	4.3%	4.7%	10.2%	9.6%	3.4%	7.6%	7.4%	3.7%

Empirical Results

GDP Per Capita

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
MC	57.31 1.145	37.24 0.704	91.32* 1.802	69.240 1.251	50.94 1.049	84.53* 1.681	60.48 1.095	28.83 0.561
STO	94.90 1.470	-	60.74 0.847	-	102.3 1.639	79.32 1.120	-	-
LS	-90.60** -2.401	-87.96** -2.379	-	-	-92.67** -2.511	-	-	-89.62** -2.464
TVL	-	125.2 1.490	-	113.2 1.154	-	-	125.5 1.283	131.8 1.594
OR	-	-	-112.7 -0.755	-133.8 -0.877	-	-119.0 -0.806	-127.6 -0.847	-
PC	4183 0.602	4830 0.700	6187 0.858	6772 0.945	-	-	-	-
GFC	1874 0.317	2533 0.434	7901 1.415	8195 1.492	-	-	-	-
R-Squared	10.5%	10.6%	8.2%	8.2%	8.8%	10%	5.5%	5.7%

Key Findings

- The aim was to investigate if stock market impacts economic growth positively or negatively in the Gulf countries.
- From the results it can be argued that :

1. Stock turnover ratio has the most positive effect on the RGDP.
2. The variable oil rent positively impacts GDPG.
3. Listed companies represented as LS have a negative effect on GDPPC.

- It can be concluded that the stock market has a positive impact on the economic growth of the GCC, because the two strongest variables have a positive impact.

Implications

1. Regulators and policy makers need to legislate sound regulations to promote stock markets to operate more efficiently than before.
2. Policy makers should start working on forming sound policies to convert the economy in the GCC from an oil-based economy to a market-based economy as oil is a non-renewable source, thus having an economy that is mainly dependent on it is not beneficial in the long run.
3. The findings of this study are beneficial for potential investors either (local or foreign) to make decisions regarding investments in this region.

Limitations

1. Lack of research papers on the same region when it comes to the topic of the stock markets impact on economic growth.
2. Results might not reflect the reality as only seven variables were chosen, while other variables like inflation, oil price, and other variables were neglected.
3. Only OLS test was used, so comparing results of different models was not possible.
4. Only examining the stock markets impact on the GCC level and not on an international level.