

Emerging Markets Queries in Finance and Business

Can Stock Market Development Boost Economic Growth? Empirical Evidence from Emerging Markets in Central and Eastern Europe

Lenuța Carp^{a,*}

^a "Alexandru Ioan Cuza" University, Carol I Boulevard no.22, Iași, 700505, Romania

Abstract

The current economic and financial crisis has had a strong influence on stock market performances in the process of financing the economic activities. This paper aims to analyze the dynamic of the stock market in Central and Eastern Europe under the impact of the macroeconomic imbalances, emphasizing the volatility of the foreign capital inflows. The data selected for the study will be used to test the impact of stock market development on the correlation between foreign capital inflows and economic growth. The result will allow comparisons between the macroeconomic performances and identifying the adequate measures through which national capital market can become more attractive for investors.

© 2012 The Authors. Published by Elsevier Ltd.

Selection and peer review under responsibility of Emerging Markets Queries in Finance and Business local organization.

Keywords: stock market, development, economic growth, foreign flows

JEL Classification: E44, F21, G15, O16

1. Introduction

International emerging markets have attracted the attention of researchers and economists, especially during the current economic crisis and due to their high potential for development and their capacity to grow faster than the developed economies.

The relationship between financial liberalization, stock market development and economic growth was intensively debated in the theoretical literature, starting with the work of Goldsmith,

1969 and Shaw, 1973. Their perspectives highlighted the positive contribution of financial development to meet higher economic growth rates, based on two main approaches: “*supply leading*” role and “*demanding following*”, accentuating the favourable impact exerted by capital account liberalization on economic growth and financial development.

Capital account liberalization and the development of the financial sector have had an important role on stock market development and growth indicators, under the factors that influence their relationship. Levine, Zervos, 1996 and Demigurre – Kunt and Levine, 1996 carried out their analysis focusing on stock market indicators and demonstrated the existence of a causal relation between stock market development and economic growth. Stock market development facilitates the access of investors to financial resources and stimulates efficient allocation of resources, boosting both national and foreign investments.

An adequate functioning of the stock market represents a significant condition for financial sector evolution which has an essential contribution to sustainable economic development, transforming the national economy in an attractive one for foreign investors.

The paper is structured into four sections: the first section presents the theoretical framework about the topic, followed by a dynamic analysis of the indicators; the third section is dedicated to the econometric study based on data on Romanian stock market, meanwhile, the last section provides the conclusions drawn from the analysis and a suggestion for measures to improve its impact on economic development.

2. Stock market development and economic growth – theoretical framework

Researchers and economists have paid increased attention to the relationship between financial development and economic growth, due to previous results that showed controversial perspectives, some of them identified a positive correlation between the variables and others have significant doubts on this correlation. Important studies on this topic tried to prove the existence of any relationship between financial development and economic growth and afterwards, the nature and direction of causality – if development of financial sector stimulates economic growth or the relationship goes the way around, King, Levine, 1993a, b.

Emerging stock markets have a key role in the international economy, and their effects on economic growth can be transmitted to the real sector through their specific channels: liquidity, market capitalization, risk sharing and diversification. Bencivenga et. al., 1996 offered strong evidences about the contribution of stock market liquidity in boosting economic growth, through firms’ information acquisition and improving corporate governance.

Using Indian stock market indicators (liquidity, volume of transactions, volatility), Deb and Mukherjee, 2008 carried out a time series analysis and concluded that between real GDP growth and market capitalization is a bidirectional causality, but from stock market activity and real GDP growth exists a unidirectional relationship. Liquidity, as a stock market indicator, along with a sound and developed financial banking system, play a key role in accelerating economic growth, Levine, 1997 emphasized the impact of stock markets on economic growth by increasing capital investments liquidity, assuming that a higher degree of liquidity will allow savers to sell their shares easily, concluding that “stock market development does not represent a financial elixir for economic growth”.

Stock market in Singh, 1997 view is often seen as an intermediary in generating positive

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات