International Research Journal of Finance and Economics
ISSN 1450-2887 Issue 138 August, 2015
http://www.internationalresearchjournaloffinanceandeconomics.com

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Impact of Some Selected Macroeconomic Variables on Stock Market Returns in Nigeria

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Abstract

There has been a growing concern on the role of macroeconomic variables on stock market return in Nigeria, despite the fact that the monetary authorities had embarked on several policies aimed at improving the growth of Nigerian stock market and ensuring stable growth in the economy. The aim of this study is to examine the effect of some selected macroeconomic variables such as gross domestic product (GDP), inflation rate and monetary policy rate on stock market returns in Nigeria. Empirical evidence from the developed and developing economies has shown that a country's macroeconomic variables have the capacity to influence the entire economy through stock market. An ex-post facto design (quantitative research design) was used to carry out this study by employing regression analysis. The results of the study indicate that the level of economic growth over the years have significant positive impact on the stock market return. While, inflation rate and monetary policy rate shows negative significant impact on stock market returns in Nigeria. The implication of this finding is that a decrease in inflation and monetary policy will improve the performance of Nigerian stock market in both long and short run. It is the recommendation of researcher that the Nigerian stock market should be made more attractive to a potential large number of small investors who wish to depend on long term investment during retirement because at the same time, it would enhance the growth of gross domestic product coupled with the implementation of appropriate monetary and fiscal policies that will invigorate long term securities investment in Nigeria.

Keywords: Capital Market, Inflation, GDP, Monetary Policy Rate, Error Correction Model.

Introduction

The relationship between stock market returns and some macroeconomic variables has been a topic of great interest in both theoretical and empirical literature. The genesis of the debate goes back to Fisher (1930) and Solomon (2012). According to the generalized Fisher hypothesis, equity stocks, which represent claims against the real assets of a business, may serve as a hedge against macroeconomic indicators. In such a case, stock prices in nominal terms should fully reflect expected rate of some macroeconomic indicators and the relationship between these two variables should be found positively correlated (Mondher, Olivier and Omar, 2013). The proposition that stock market returns serves as a hedge against macroeconomic variables, implies that investors are fully compensated for increases in the general price level through corresponding increases in nominal stock market returns and thus the