The Determinants of Stock Market Development: The Case for the Nairobi Stock Exchange

Abstract:

This study sought to investigate the determinants of development in the Nairobi Stock Exchange. Secondary data for the period 2005-2009 was used to model the factors influencing the development of the NSE. The regression results found that, macro-economic factors such as stock market liquidity, institutional quality, income per capita, domestic savings and bank development are important determinants of stock market development in the Nairobi Stock Exchange. The regression analysis reported no relationship between stock market development and macroeconomic stability - inflation and private capital flows. The results also show that Institutional quality represented by law and order and bureaucratic quality, democratic accountability and corruption index are important determinants of stock market development because they enhance the viability of external finance. This result suggests that the resolution of political risk can be an important factor in the development of the Nairobi Stock Exchange.