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The Relationship between Macroeconomic Variables and Stock Market Index in Nigeria

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ABSTRACT This study is an attempt to determine the relationship between macroeconomic variables and the Nigerian capital market index. It considers the yearly data of several macroeconomic variables of interest rates, inflation rates, exchange rates, fiscal deficit, GDP and money supply from 1975 to 2005; and it tries to reveal the relative influence of these variables on the 'All Share Index' of the Nigerian capital market. In pursuance of this, the Vector Error Correction Model (VECM) was used to study the short-run dynamics as well as long-run relationship between the stock market index and the six selected macroeconomic variables from the Nigerian economy. The major finding is that macroeconomic variables influence stock market index in Nigeria. It is recommended that the adoption of appropriate economic policies will be beneficial to the stock market index [a proxy for stock prices] and this in turn will result in needed growth in the capital market.

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