

Fiscal budget deficit and the emerging capital markets in West African countries

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ABOUT

Abstract

This study investigates development of capital markets in West African countries, with the main aim of determining the role of fiscal budget deficit. Investigation is done by building a panel model, showing the relationship between capital market and fiscal budget deficit. Estimation results reveal that the deficit significantly influenced the markets by exerting positive impact on market capitalisation and stocks traded, with the impact on stocks traded superseding that of market capitalisation. The impact of deficit is complemented by return on investment, exchange rate, financial openness, and money supply. The major implication of these findings is the high vulnerability of these markets to switch in fiscal policy from deficit budgeting to surplus budgeting, which may lead to decline in market activities. In view of this, attention needs to be focused on enhancing the role of financial openness and return on investment, which are also strong drivers of capital market development.

Keywords

[fiscal budget deficit](#), [capital markets](#), [developing countries](#)

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