

FINANCIAL LIQUIDITIES AND AFRICAN STOCK MARKETS

MONDAY UHUNMWANGHO

University of Benin, Benin City, Edo State, Nigeria
Monday.uhunmwangho@uniben.edu

SUNDAY OSARETIN IGBINOSA

University of Benin, Benin City, Edo State, Nigeria
Osaretin.Igbinosa@uniben.edu

Abstract

Financial liquidity can be used as a tool by investors and regulatory authorities to influence investment activities at the exchange. The objective of this study was to determine the categories of financial liquidity that affect stock market returns in Africa. Sixteen (16) African countries were investigated for the period 2013 to 2019. The Generalised Method of Moments (GMM) in first difference transformation was engaged for the analysis. Our findings revealed that financial liquidity significantly determine stock market returns in Africa. Specifically, stock market liquidity and global liquidity (diaspora remittances) significantly and negatively impact market returns, while economy-wide liquidity positively and significantly affect returns. Therefore, policy should be directed at mobilizing diaspora remittances because doing so will stimulate investment spirit and boost trading activities at the exchange. Also, market regulatory authorities in emerging economies should introduce more transparent trading platform and derivative instruments to improve stock market liquidity which have the capacity to enhance stock market performance.

Key words: African Stock Markets, Diaspora Remittances, Financial Liquidities, Generalised Method of Moments.

JEL Classification: G12; G15; G18

1. INTRODUCTION

Financial liquidity is the life blood of any economic unit, be it individual, organization or nation, therefore can be engaged by investors and regulatory authorities to influence trade, investment and stock market activities. Financial liquidity indicators take different forms such as banking liquidity, economy-wide (aggregate liquidity), global liquidity and stock market liquidity. Marozva (2015) described liquidity in terms of the ease with which security can be traded, and on the basis of how quickly transaction funds can be obtained. The formerly is stock market liquidity, while the latter is funding or banking liquidity. Economy-wide liquidity is

the quantity of money in circulation at the national level, whereas, global liquidity is the inflow of funds from foreign nations to domestic economy. Osaze (2011) described liquidity as cashflows required to settle maturing obligations. Stock market liquidity has also been described as the ability of the market to withstand huge volume of transactions and yet no substantial variations may occur in price and cost (Emerging Market Committee Working Group on Regulation of Secondary Markets Report, 2007, December). The effect of liquidity is remarkably strong in emerging markets (Bekaert, Harvey & Lundblad, 2007) owing to illiquidity, and low stock market liquidity discourages foreign investors from participating in domestic markets. When weighing the risk associated with committing funds to financial assets at the exchange, one major factor investors consider is the level of liquidity of the asset (Wang & Chem, 2012). Thus, the level of liquidity of the stock market may have effect on the level of performance at the exchange.

Also, the 2008 to 2010 global financial crises which saw drastic reduction in asset returns is ascribed to worsening liquidity, particularly from the banking institution. A bank is illiquid if it does not have sufficient funds to meet customers' cash withdrawals. The more credit advanced by the bank, the lower its ability to meet customers' immediate demand. To avoid illiquidity, banks are expected to keep a certain percentage of their asset in liquid form (reserve). The ratio of these liquid reserves to the total asset is called the liquidity ratio. This ratio is used by the Central Bank to control credits creation in banking institutions. Therefore, the regulation targeted at boosting banking liquidity constraints funds availability to the private sector for investment and this may have effect on trading activities and returns at the exchange. Lagos and Zhang (2018) demonstrated that monetary policy actions work through liquidity to impact the capital market, while the effect on prices spread to the general economy. Study have showed that increase in credits creation by bank influence stock market performance positively (Soliman & Obi, 2017).

Furthermore, a rise in money supply means more money for consumption, savings, and investment, and these have effects on stock market activities. However, too much money in circulation may lead to rise in general price level, hence this variable is commonly regulated by the government. Amadeo (2018) clarified that economy-wide (aggregate) liquidity is funds accessible for investment including money and credit facilities, which are needed by market traders for transactions.

Additionally, majority of emerging economies including Africa countries depend on foreign funds (global liquidity) for development. International funds come in various forms ranging from foreign direct investment, portfolio investment, borrowings, grants and diaspora personal remittances. It has been documented that the inflows of capital boost stock market activities in domestic markets (Psalida, Kokenyne, Nowak & Sun, 2010). However, little or no attention has been given to diaspora remittances which is a more stable source of funds with little or no cost to the recipients and the receiving countries.

It on the basis of the foregoing, this study seeks to determine the categories of financial liquidity influencing stock markets in Africa, focusing on stock market

liquidity, banking liquidity, economy-wide liquidity and global liquidity (proxy by diaspora remittances).

2. LITERATURE REVIEW

2.1 THEORITICAL LITERATURE

Bachelier (1900) is among the first to arouse interest on the efficiency of the stock market when he demonstrated that expected future commodity prices founded on past and current prices are not different from the current price. Holbrook (1934) empirically supported the notion that price follows a random walk, meaning it is not possible to forecast price effectively in an ideal market. Samuelson (1965) took sides with the unpredictability of the stock price when he submitted that if anyone is certain that price will change in the future, the price would have already done so. However, efficient market hypothesis was pioneered by Fama (1970). He viewed efficient market as one in which price fully reflects available information and is a fair price. Jensen (1978) described an efficient market as one in which a trader cannot make abnormal gains by taking advantage of information set. Meaning, information already made available cannot be exploited to make more than normal profit. In an efficient market, prices adjust speedily to new information and the current price incorporates all available information. On this backdrop, benefiting from price variations through prediction is difficult, if not impossible (Ruhami, Islam & Ahmad, 2018). The implication is that external activities, such as happenings in the macroeconomic environment cannot determine price movement at the exchange. However, Kurihara (2006) confirmed that stock price reacts to several indicators including price in the foreign market, gross domestic product (GDP), exchange rate, the interest rate to mention a few.

Yoshino, Hesary, Hassanzadeh and Prasetyo (2014) showed that monetary policy action pass-through liquidity (money), exchange rate, and general price level to affect the stock market. Bernstein (1987) agreed that liquidity is a threat to market efficiency in that in a liquid market, noise, and unexpected price fluctuations are low, whereas, in an efficient market, the arrival of news causes the price to change at great speed. Indeed, liquid market is attractive to investors, as such the more the liquidity, the better the returns (Abdullahi & Fakunmoju, 2019). Where banking liquidity is highly regulated, the ability of banks to provide funding liquidity is restricted, therefore trading on financial assets may be hindered and vice versa. Huo and Rios-Rull (2016) reported that borrowing constraints depress domestic prices.

2.2 EMPIRICAL LITERATURE

Rahman and Mustafa (2017) analysed the impact of stock market liquidity on stock market in developed and developing economies, applying vector error correction model on panel data for the period 1988 to 2014. Stock market liquidity was proxy by turnover ratio and ratio of value traded to GDP (liquidity measures). The outcome of the study reveals that the effect of stock market liquidity on returns is stronger in developed markets than developing ones. Abdullahi and Fakunmoju

(2019) studied the connection between macroeconomic indicator (surrogate by stock market liquidity) and stock market return in Nigeria covering 1998 to 2018. The study which utilised autoregressive distributive lag (ARDL) bound test, reveals that market liquidity positively and significantly drives stock market index both in the long-run and short-run. Miralles-Quiros, M.D., Miralles-Quiros, J.L., and Oliveira (2017) examine the role of liquidity in pricing of financial asset in Portugal from 1988 till 2013, in CAPM framework. The result reveals that individual illiquidity negatively and significantly determine stock price, while market source of illiquidity do not.

Onoh (2016) employed daily data from January 2001 to December 2015 to inspect the association between stock market liquidity and returns in Nigeria. Multiple regression was activated, and the result demonstrates that liquidity significantly impact stock returns. Turnover ratio is positively connected to returns, while value traded ratio is negatively related. Akram (2014) surrogate liquidity using bid-ask spread and examine its effect on stock returns in Pakistan from 2005 to 2012. The study which engaged two stage regression showed that liquidity negatively drive returns. Leivik, Fiskerstrand and Fjellvikas (2017) inspected the reaction of stock market returns to market liquidity in Norway for the period 1983 through 2015. The study could not provide evidence that significant connection exists between liquidity and stock return. Rehman and Mangla (2018) analysed the link between market liquidity and returns for the period 2003 to 2018, using Pakistan daily data. Regression technique was applied, and the result indicates that liquidity (surrogate by bid-ask-spread) negatively influences market return.

Jun, Marathe & Shawky, (2003) examine the impact of liquidity on stock return in a cross section of emerging markets, covering 1992M01 till 1999M12. The result indicates that market-wide liquidity positively relates to stock returns. Dey (2005) examined the impact of liquidity on index returns in Federation of International Stock Exchanges member states, applying two-stage generalized least squares on monthly data from 1995 to 2001. The result shows that liquidity positively and significantly drive returns in emerging markets. Lam, Tam and Dong (2019) examine the place of liquidity in asset returns in China from July 1997 to June 2014, utilising regression tool. The result indicates that liquidity is a major variable influencing asset returns. Heidapoor, Rouhi and Mashael (2012) inspect whether stock price changes are reactions to stock market liquidity in Tehran stock market. Correlation technique was applied on time series data ranging from July to September 2010. The result shows that market liquidity is significantly correlated with changes in both daily returns and monthly returns.

Chung, Ariff and Shamsher (2017) assessed the connection between bank liquidity and stock markets in Asian Countries covering 2001Q4 to 2012Q2, using correlation and structural models. It was discovered that banking liquidity positively boost stock market returns. Chung and Ariff (2016) applied Granger Causality and dynamic regression on quarterly data to assess the effect of bank liquidity on stock

market for the period 1960Q1 to 2013Q4. The result reveals that banking liquidity banking liquidity Granger caused stock return and positively account for variation in returns. Osakwe and Chukwunulu (2019) investigate the impact of monetary policy on Nigerian stock market using OLS covering 1986 to 2015. Monetary policy was surrogate by money supply, interest rate among other indicators. The result shows that money supply significantly and positively drive stock market index. Martin (2013) reported that money supply significantly caused stock market movement in U.S, when Granger causality tool was utilised for the period 1967 to 2011. Picha (2017) applied VECM on quarterly data for the period 1952 to 2015 to assess the influence of money supply on stock market in US. It was reported that money supply impact stock market proxy by Standard and pool 500 index. Altiqi and Fazel (2008) investigated the hypothesis that money supply impact stock market positively. The study applies cointegration and causality test on monthly data (1965 to 2005) for the investigation. The result could not provide backing for causal positive association flowing from money supply to stock market.

Osisanwo and Atanda (2012) desire to know the factors that drives stock market movement in Nigeria using time series data from 1984 to 2010, utilising ordinary least squares. It was indicated that money supply drive stock market returns. Molefhi (2019) looked at the influence of macroeconomic indicators on stock market in Botswana, applying autoregressive distributive lag technique on quarterly data covering 2006 to 2017. The result discloses that money supply positively influences returns in the short-run. Jones and Uri (1987) evaluated the connection between rise in money supply and U.S stock market for the period 1974M5 to 1983M12. The Granger test result validates that market mirror both the present and previous value of money supply. Nwaogwugwu (2018) utilised ARDL and time series data covering 1970 to 2016 to assess the link between monetary variables and stock market in Nigeria. The outcome reveals that money supply significantly accounted for stock market behaviour both in the short and long-run. John (2018) investigated whether Nigerian stock market react to macroeconomic indicators like money supply. Simple least squares regression was applied on annual data covering 1981 to 2016. The analysis demonstrates the stock market respond to money supply positively and significantly.

Kim and Yang (2008) exposed that capital inflows into East Asian countries from abroad boost stock prices, when Panel vector autoregression and quarterly data spanning 1999Q1 to 2006Q1 were utilised. Loncan and Caldeira (2015) evaluate the impact of foreign portfolio capital flows on Brazilian stock exchange, using both aggregate and firm specific data from 2000M1 to 2013M12, using regression in Arbitrage Pricing Theory (APT) framework. The result indicates that foreign flow of funds positively and significantly determines stock returns both at the aggregate level and micro level. Njoroge (2015) studied the impact of diaspora remittances on stock market performance in Kenya, using monthly data covering 2008 to 2015. Correlation and regression techniques were utilized, and the result showed that diaspora remittances determined the stock market positively and significantly. Osaro, Simiyu and Omagwa (2020) examined the impact of diaspora remittances on

stock market development in Kenya from 2008 to 2018, using correlation and ADL technique. It was discovered that diaspora remittances have a positive and significant influence on stock market development.

2.3. CONTROL VARIABLE

Investors aiming at higher-than-normal returns are expected to give serious consideration to the instability in macroeconomic variables because macroeconomic fundamentals as well as government actions affect stock market outcomes and activities (Barakat, Elgazzar & Hanafy, 2016). Kurihara (2006) confirmed that stock price reacts to several indicators including gross domestic product (GDP), exchange rate to mention a few. Zhang (2006) hypothesised that heightened information uncertainty associated with favourable news would result in higher expected returns, whereas, uncertainty arising from bad news produce lower expected returns. It is on this backdrop; this study incorporates macroeconomic instability index (MII) in its model to account for the effect of the distortion arising from fluctuations in macroeconomic variables.

3. METHODOLOGY

This study investigates the effect of financial liquidity on stock market returns covering 16 member countries of African Securities Exchanges Association. Data utilized was sourced from African Securities Exchange Association (ASEA), Bank for International Settlements and World Bank Development Indicator databases for the period 2013 to 2019. The data set were subjected to panel unit root tests to ascertain the level of stationarity. The effect of financial liquidity on stock market returns was determined using the Generalised Method of Moments (GMM) in the first difference transformation and dynamic panel model.

3.1 MODEL SPECIFICATION

To detect the link between financial liquidity and stock market returns, the following model was implemented:

$$MKr = f(TOR, BLR, DPR, EL, MII) \dots\dots\dots(1)$$

The econometric form of the model is stated as:

$$MKr_{it} = YMKr_{it-1} + b_1TOR_{it} + b_2BLR_{it} + b_3DPR_{it} + b_4EL_{it} + b_5MII_{it} + E_{it} \dots\dots\dots(2)$$

Where:

MKr_{it} = return to market_i at time t,

TOR_{it} = stock market liquidity for market_i at time t,

BLR_{it} = banking liquidity in country_i at time t (surrogate by ratio of bank liquid reserve to total asset),

DPR_{it} = inflows of funds into country_i at time t (proxy by the ratio of diaspora personal remittances to GDP).

EL_{it} = economy-wide liquidity in country i at time t (surrogate by growth in money supply),

MII_{it} = macroeconomic instability in country i at time t (proxy by macroeconomic instability index and used as control variable in this study),

γ = the speed of adjustment of the market back to equilibrium,

t_{-1} = Lagged value of the variable, and

E_{it} = error term

$b_1 - b_5$ = parameters to be estimated.

Market size (MKS) of country i at time t proxy by number of listed stocks was introduced as instrumental variable, hence not included as explanatory variable in the model.

Stock market liquidity (TOR) was estimated as value traded divided by market capitalization.

Stock market returns (MKr) was measured as natural logarithm of current market index minus the lag of market index multiplied by 100 in line with Atoi (2014) thus:

$$MKr = \ln(index_t) - \ln(index_{t-1}) \times 100 \dots\dots\dots(3)$$

Macroeconomic instability proxy by macroeconomic instability index (MII) and used as control variable in this study was adapted from Haghghi, Sameti and Isfahani (2012) with modification as follows:

$$MII = \left[\frac{1}{W_x} \left(\frac{X_t - X_{min}}{X_{max} - X_{min}} \right) + \frac{1}{W_y} \left(\frac{Y_t - Y_{min}}{Y_{max} - Y_{min}} \right) + \frac{1}{W_k} \left(\frac{K_t - K_{min}}{K_{max} - K_{min}} \right) \right] / M \dots\dots\dots(4)$$

Where:

MII = macroeconomic instability index (a composite index which measure the risk associated with macroeconomic variables. The index was calculated using the combined index of exchange rate, inflation and economic growth); X, Y, K are the current value of exchange rate, inflation, and economic growth respectively; N= the number of indicators; Max and Min are the Maximum and Minimum values of the respective indicators. W_x, W_y, W_k are the weight of the respective indicators proxy in this study by standard deviation. Standard deviation, maximum, minimum values were extracted from descriptive statistic of the individual variable.

3.2. UNIT ROOT TESTS

It is usually believed that if time series data is not stationary, the regression outcome obtained from such data set may not be consistent. To this end, we subject the data to the Levin, Lin and Chu (2002); the Im, Pesaran and Shin (2003); and the Fisher-type unit root tests to test the null hypothesis that the data set has unit root. The outcome of the tests on variables at levels presented in table 1 shows that DPR and BLR failed the unit root tests at probability value (P.value) of 0.05. So, the procedures were repeated on the variables, this time at their first difference, and all of them became stationary at P. value of 0.05 as shown in Table 2.

Table 2: Panel Unit Root Tests on Variables at Levels

Variable	Levin, lin & Chu St.	Prob.	Im, Pesaran and Shin W.St	Prob.	ADF-Fisher Chi ² Statistic	Prob.	PP-Fisher Chi ² Statistic	Prob.
MKR	-113.530*	0.0000	- 29.3809*	0.0000	168.797*	0.0000	235.191*	0.0000
MII	-6.1256*	0.0000	-1.8136*	0.0349	51.2843*	0.017	57.6584*	0.0167
TOR	-4.7973*	0.0000	-1.5302*	0.0430	51.3831*	0.0163	65.2508*	0.0005
DPR	-6.6858*	0.0000	-0.1962	0.4222	33.5330	0.3929	40.9033	0.1345
BLR	-0.8348	0.2019	0.7267	0.7663	26.5939	0.7368	35.7073	0.2983
EL	-9.0731*	0.0000	-2.5021*	0.0062	61.5735*	0.0013	81.5215*	0.0000
MKS	-9.9762*	0.0000	-2.3194*	0.0102	57.6292*	0.0018	90.4403*	0.0000

Source: Author's compilation with the aid of E-view 9.0

Table 2 reveals that all the variables are stable at first difference, meaning they are integrated of order one 1(1). With this outcome, we conclude that there is no unit root in the data set utilised in this study, therefore the regression outcome with the variables will be reliable. However, the variables were handled at their respective level of stationarity.

Table 2: Panel Unit Root Tests on Variables at First Difference

Variable	Levin, lin & Chu St.	Prob.	Im, Pesaran and Shin W.St	Prob.	ADF-Fisher Chi ² Statistic	Prob.	PP-Fisher Chi ² Statistic	Prob.
MKR	-79.4923*	0.0000	- 18.5148*	0.0000	125.429*	0.0000	176.036*	0.0000
MII	-10.1497*	0.0000	-2.5234*	0.0058	59.3301*	0.0023	85.7413*	0.0000
TOR	-13.3606*	0.0000	-4.1652*	0.0000	84.5969*	0.0000	124.689*	0.0000
DPR	-11.4305*	0.0000	-2.5508*	0.0054	58.8528*	0.0026	77.4127*	0.0000
BLR	-7.7022*	0.0000	-1.7022*	0.0444	49.5906*	0.0244	65.8976*	0.0244
EL	-12.9284*	0.0000	-4.2681*	0.0000	81.0015*	0.0000	112.121*	0.0000
MKS	-7.0419*	0.0000	-1.6788*	0.0466	42.2737*	0.0230	57.0714*	0.0004

Source: Author's compilation with the aid of E-view 9.0

3.3 REGRESSION RESULTS AND DISCUSSION

The results of the Generalised Method of Moments (GMM) in First Difference Transformation estimates for the effect of financial liquidity on stock market returns in Africa are presented in table 3 below. The goodness of fit of the model captured by Sarjan T. test in table 3 validates the absence of over or under restriction in the estimation technique used because the J. statistic value of 10.7725 is not significant at 5 percent and is within the range 0.25 and 0.90 looking at the probability value. This suggests that the model is appropriately specified. Also, the Arrelano and Bond (1991) autocorrelation test were applied on the regression output to check if there is no serial correlation in the regression results. The outcome of the test in table 4 indicates the absence of autocorrelation in the results because the M. statistic of AR(1) and AR(2) are not significant at 5% level. The implication of this result is that all the instrumental variables used are exogenously related to their respective error terms, therefore the result of the regression is consistent.

Based on the impressive outcome of the diagnostics tests and the fact that all the necessary conditions for a valid and reliable model are satisfied, we went ahead to interpret the regression results as displayed in table 3 below

Table 3: Regression Results (MKR as Dependent Variable)

Variables	Coefficient	T.Statistic	Probability
MKR(-1)	-0.0047	-3.3313*	0.0014
TOR	-100.8420	-193.0723*	0.0000
DDPR	-1.8206	-4.6283*	0.0000
DBLR	0.0655	0.9814	0.3303
EL	0.0823	4.7955*	0.0000
MII	100.4801	348.9058*	0.0000
J.Statistic: 10.7725 Probability of J.Statistic: 0.3755 Ranking of Instrument: 16 *: Significance at 1% level			

Source: Author's compilation with the aid of E-view 9.0

The results in table 3 discloses that the speed of adjustment of the African Stock Markets to equilibrium which stood at a value of 0.0047 in absolute term is very low. This suggests that the markets are less efficient informationally. The negative sign of the adjustment speed in this result is an indication of how fast the indicators engaged are incorporated in the model. However, the significance of (MKR-1) implies that the markets respond to its past performance, an indication that previous market behaviour can be used to predict current returns. This again is an attestation that African markets are not weak-form efficient. The result agrees with Hellwig (1980) that stock prices do not absorb information in its entirety, because investors utilised not only micro news but also signals emanating from macroeconomic space in making investment decisions; and Berstein (1987) that in an efficient market, the arrive of news causes the stock price to change at great speed, but disagrees with Uyaebo, et al (2015) that returns in developing markets respond faster to market surprises.

Table 3 further reveals that stock market liquidity (TOR) is a major factor that drives stock market returns in Africa due to the significance of this indicator at 0.01% level. Indeed, a liquid market is attractive to foreign and domestic investors because it facilitates trading on financial asset at the exchange. The negative impact of TOR on stock market returns in Africa may not be unrelated to the low level of liquidity of some of the markets coupled with the high level of risk inherent in such markets, which tends to discourage investors, especially foreign investors. Indeed, the cost of raising capital in a less liquid market is high because of the huge transaction cost (Butler, Grullon & Weston, 2005), and this account for the small size of some of the African Stock Markets and the relatively small volume of transactions, hence the negative effect of stock market liquidity on returns. This result is in line with Akram (2014) who validated that stock market liquidity negatively affects market returns; and Omri, et al (2010) that liquidity is inversely linked to stock returns; but different from that of Abdullahi and Fakanmoju (2019)

who documented that stock market liquidity is positively and significantly related to the stock market returns.

Furthermore, our result indicates that global liquidity (financial liquidity variable in this study) proxy by diaspora personal remittances as a percentage of GDP (DDPR) is vital to African Stock Market performance because of the significant effect of the indicator on returns. The implication of this result is that, diaspora remittances can be taken advantage of by the African government to stimulate the growth of the stock market. The negative impact of this indicator on returns is occasioned by the fact that a reasonable proportion of these funds have not been invested in financial securities in Africa. Indeed, because of the high level of poverty and unemployment in the continent, personal remittances are committed to consumption and building of family residential houses rather than investment on financial assets. Therefore, the recipients of these funds at home and the migrant workers abroad should be motivated to channel these funds to the capital market, because committing remittances to financial assets at the exchange would boost trading activities and enhance stock market returns. This finding is different from that of Njoroge (2015) that diaspora remittances positively and significantly determine stock market performance; and Osaro, et al (2020) that diaspora remittances have a positive and significant influence on stock market development.

Banking sector liquidity (another financial liquidity variable in this study) surrogate by the ratio of bank liquid reserves to total assets in this study is positively signed, implying that the more liquid the banks the better the market performance. This result agrees with Odhiamb (2010) that the banking liquidity ratio positively accounted for stock market returns; and Chung and Ariff (2016) who reported that banking liquidity influenced stock market returns. The not significance of banking liquidity in this study suggests that this regulatory instrument has not been adequately utilised to influence stock market activities in Africa. Also, economy-wide liquidity (EL) proxy in this study by growth in broad money supply has a positive effect on stock market returns. The coefficient of EL which is significant at 0.01 judging with the P.value, suggests that an increase in money supply has the capacity to boost stock market returns. This is a pointer to the fact that enhancing money supply will stimulate consumption, savings, investment, and ultimately trading activities at the stock market. This result aligns with previous findings that money supply significantly and positively drives stock market returns (Osakwe & Chukwunulu, 2019; Molefhi, 2019).

Overall, the results show that financial liquidity indicators are significant determinants of stock market performance, therefore can be relied on as regulatory instruments to influence stock market activities.

Table 4: *Arellano-Bond Test for Autocorrelation*

Order of Test	M.Statistic	Probability
AR(1)	-1.3137	0.7537
AR(2)	-0.0549	0.9562

Source: Author's computation (2021) with the aid of E-view 9.0

4. CONCLUSION

Financial liquidity occupied an important aspect in national development and can be used as tool by investors and regulatory authorities to influence trade, investment and stock market activities. However, certain categories of financial liquidity especially bank liquidity and global liquidity (inflows) from foreign nations may constitute risk because of their unstable nature. Therefore, developing economies should focus attention on attracting diaspora remittances which is a more stable source of fund for national development. This informs our decision in this study to examine the particular financial liquidity that impact stock market returns in Africa, focusing on stock market liquidity, banking liquidity, economy-wide liquidity and global liquidity. Our findings revealed that financial liquidity significantly determine stock market returns. Specifically, stock market liquidity and global liquidity (diaspora remittances) significantly influence market returns. Therefore, policy should be directed at mobilizing diaspora remittances because doing so will stimulate investment spirit and boost trading activities at the exchange. Also, market regulatory authorities in emerging economies should introduce more transparent trading platform and derivative instruments to improve stock market liquidity which have the capacity to enhance stock market performance.

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