

The Effect of Macroeconomic Variables on the Stock Prices of Listed Manufacturing Firms in Ghana.

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Abstract

This study examines the impact of key macroeconomic variables—interest rates, inflation rates, and exchange rates—on the stock prices of listed manufacturing firms in Ghana. Grounded in the Arbitrage Pricing Theory and the Efficient Market Hypothesis, the study employs a quantitative panel data approach covering the period 2015–2024. Using descriptive statistics, correlation analysis, and fixed-effects regression estimation, the analysis explores how macroeconomic fluctuations influence stock performance within Ghana’s manufacturing sector. The results indicate that interest rate has a significant negative effect on stock prices, implying that tighter monetary policy and higher borrowing costs reduce equity demand and firm profitability. Inflation exhibits a negative but statistically insignificant relationship with stock prices, suggesting that firms and investors absorb moderate inflationary changes. Conversely, exchange rate depreciation significantly increases stock prices, indicating that a weaker cedi enhances export competitiveness and firm valuation. The findings underscore that manufacturing stock prices in Ghana are highly sensitive to macroeconomic dynamics, emphasizing the importance of monetary and exchange rate stability in sustaining investor confidence and industrial growth.

Keywords: Stock price, interest rate, inflation rate, exchange rate, Ghana Stock Exchange.

1 INTRODUCTION

Stock markets play a central role in the financial system by channeling savings into productive investments, enhancing liquidity, and providing investors with mechanisms for portfolio diversification (Medyawati & Yunanto, 2020). The performance of stock prices, however, is not determined solely by firm-level fundamentals but is also shaped by the broader macroeconomic environment in which firms operate (Ross, 1976). In emerging economies like Ghana, where financial markets are relatively shallow and sensitive to policy shifts, macroeconomic factors such as interest rate, inflation rate, and exchange rate are particularly influential in determining equity price movements (Adjei & Amankwah, 2024; Zubairu et al., 2025).

The Ghana Stock Exchange (GSE) has grown steadily since its establishment in 1990, serving as a vital platform for capital mobilization and industrial growth. The manufacturing sector, in particular, contributes significantly to Ghana's economic diversification and employment generation. However, the sector's stock price performance has been characterized by pronounced volatility, driven in part by fluctuations in macroeconomic indicators such as monetary policy rate adjustments, inflation surges, and exchange rate depreciation (Bank of Ghana, 2024). For instance, the Ghanaian cedi experienced persistent depreciation against major trading currencies between 2020 and 2024, while inflation and interest rates fluctuated in response to both domestic and global shocks. These dynamics directly affect corporate profitability, investor expectations, and consequently, stock price valuation (Aveh & Awunyo-Vitor, 2017).

From a theoretical standpoint, the Arbitrage Pricing Theory (APT) and the Efficient Market Hypothesis (EMH) provide the foundation for examining macroeconomic influences on asset prices. The APT suggests that returns on financial assets are influenced by multiple systematic risk factors, including inflation, interest rate, and exchange rate movements (Ross, 1976). The EMH further posits that stock prices fully reflect all available information; thus, any change in macroeconomic fundamentals should be instantaneously incorporated into market prices (Fama, 1970). In emerging markets, however, information asymmetry, delayed adjustments, and speculative behavior may prevent full price rationality, leading to persistent deviations from equilibrium values (Nyarko & Asante, 2023).

Empirically, the relationship between macroeconomic indicators and stock prices remains mixed across different markets. In developed economies, several studies have reported strong negative effects of interest rate and inflation on equity prices (Al-Qudah & Saleh, 2024; Meero, 2022). Conversely, in developing economies, the direction and strength of these relationships vary depending on market structure, policy environment, and investor composition (Singh & Tandon, 2023). For instance, Der et al. (2020) found that in Ghana, changes in monetary policy rates had a significant inverse relationship with stock market returns, while exchange rate depreciation positively affected export-oriented firms. Similarly, Adjei (2023) showed that inflation uncertainty erodes real stock returns, leading to market instability and weak investor confidence.

In the case of Ghana's manufacturing sector, these macroeconomic factors are particularly critical. High interest rates increase borrowing costs, discouraging investment and reducing profitability. Rising inflation rates erode purchasing power and real returns, while volatile exchange rates affect import costs and export competitiveness. The cumulative effect of these dynamics influences investor sentiment and market valuation of listed manufacturing firms (Sampene, 2021). Despite the importance of these relationships, empirical evidence focusing specifically on the manufacturing sector in Ghana remains limited. Most existing studies either examine aggregate market indices or treat all listed firms as a homogeneous group, overlooking sectoral heterogeneity and exposure to macroeconomic shocks (Agyapong & Asiedu, 2024; Zubairu et al., 2025).

This study therefore seeks to fill this gap by examining the impact of macroeconomic variables interest rate, inflation rate, and exchange rate on the stock prices of listed manufacturing firms in Ghana. Using panel data covering the period 2015–2024, the study applies fixed-effects regression techniques to identify the direction and magnitude of the effects. The analysis contributes to the literature by providing sector-specific evidence from an emerging African market, thereby improving understanding of how macroeconomic stability (or volatility) influences equity valuation.

The findings are expected to offer valuable insights for investors, corporate managers, and policymakers. For investors, understanding macroeconomic sensitivities aids in risk management and portfolio diversification. For corporate managers, the results provide a basis for strategic planning and financial hedging against macroeconomic shocks. For policymakers,

the study highlights the significance of maintaining interest rate discipline, inflation control, and exchange rate stability to foster a conducive environment for industrial growth and capital market development.

2 LITERATURE REVIEW

2.1 THEORETICAL FRAMEWORK

Macroeconomic variables exert substantial influence on stock market performance by shaping investor expectations, firm profitability, and liquidity conditions. The Arbitrage Pricing Theory (APT) proposed by Ross (1976) posits that asset returns are driven by multiple systematic risk factors—such as interest rates, inflation, and exchange rate movements—that capture the broader economic environment. Complementarily, the Efficient Market Hypothesis (EMH) by Fama (1970) asserts that stock prices reflect all available information and adjust immediately to macroeconomic changes.

However, in emerging and developing markets where capital markets are often less efficient, structural rigidities, policy uncertainty, and information asymmetry weaken these theoretical assumptions. Consequently, macroeconomic shocks tend to produce more pronounced volatility in stock prices (Nyarko & Asante, 2023). Among the numerous macroeconomic indicators, interest rate, inflation, and exchange rate consistently emerge as the most influential determinants of stock valuation (Adjei & Amankwah, 2024; Zubairu et al., 2025).

2.2 INTEREST RATE AND STOCK PRICES

The interest rate reflects the cost of capital and the opportunity cost of holding money. Higher interest rates generally lead to higher discount rates on future cash flows, thereby reducing the present value of stocks. According to APT, an increase in the interest rate raises investors' required rate of return, discourages equity investments, and drives capital toward fixed-income securities (Ross et al., 2019).

Empirical evidence overwhelmingly supports a negative association between interest rates and stock prices. Al-Qudah and Saleh (2024) observed that rising policy rates significantly reduced stock returns among Middle Eastern manufacturing firms. Similarly, Hunjra et al. (2023) found that in South Asian markets, tightening monetary policy suppressed equity valuations by

increasing borrowing costs and constraining liquidity. In Ghana, Der et al. (2020) and Adjei (2023) both reported that increases in the Bank of Ghana's policy rate adversely affected the Ghana Stock Exchange, particularly within the manufacturing sector.

Nonetheless, some studies reveal nuanced relationships. For example, Singh and Tandon (2023) demonstrated that the interest rate–stock price relationship may differ across industries depending on leverage structure and financial flexibility. Zubairu et al. (2025) also noted that moderate interest rate hikes could temporarily attract foreign capital inflows, offsetting negative effects in the short run.

Overall, in Ghana's context—where the policy rate has frequently been used as an anti-inflationary tool—rising interest rates increase borrowing costs for firms, reduce investor appetite for equities, and ultimately depress stock valuations.

2.3 INFLATION RATE AND STOCK PRICES

Inflation represents a sustained increase in the general price level and directly affects investors' real returns. The Fisher Effect suggests that nominal interest rates adjust to inflation expectations, leaving real returns unchanged. However, in practice, high or unpredictable inflation introduces uncertainty, erodes purchasing power, and reduces firm profitability (Chowdhury & Hasan, 2020).

Empirical results largely indicate a negative relationship between inflation and stock prices. Meero (2022) found that inflation volatility reduced investor confidence and market returns in Bahrain, while Al-Homaidi et al. (2023) observed similar effects in GCC economies. In Ghana, Mahama (2023) and Nyarko and Asante (2023) confirmed that persistent inflation diminishes stock market performance by increasing operational costs and discouraging investment.

Nevertheless, mild or anticipated inflation may not always harm stock performance. Agyapong and Asiedu (2024) noted that firms can sometimes pass increased costs to consumers, mitigating adverse effects. Adjei and Amankwah (2024) similarly found that moderate inflation may coincide with economic expansion, which can sustain investor optimism.

Overall, evidence from Ghana's manufacturing sector suggests that inflation generally exerts a negative effect on stock prices, reflecting limited cost transferability and heightened investor aversion to inflationary uncertainty.

2.4 EXCHANGE RATE AND STOCK PRICES

Exchange rate fluctuations influence stock prices through their effects on firm competitiveness, import costs, and export revenues. The Exchange Rate Exposure Hypothesis proposes that currency depreciation benefits export-oriented firms by increasing foreign-currency earnings, while appreciation harms their competitiveness (Adam & Quansah, 2019).

Empirical studies report mixed findings. Hunjra et al. (2023) found that currency depreciation boosted export-oriented industries in Pakistan, while Kumar et al. (2022) reported negative effects in India due to higher import costs. For Ghana, Der et al. (2020) and Adjei (2023) revealed that exchange rate movements have asymmetric effects, benefiting firms with foreign market exposure but harming import-dependent ones. More recent evidence by Zubairu et al. (2025) indicates that moderate cedi depreciation positively influences stock prices in export-driven manufacturing firms.

Thus, exchange rate volatility has both positive and negative implications, depending on a firm's trade structure. In Ghana's manufacturing sector, where firms rely heavily on imported inputs but also export regionally, exchange rate depreciation tends to yield a net positive effect on stock valuation through enhanced export competitiveness.

2.5 EMPIRICAL GAP

Existing literature consistently underscores the importance of macroeconomic stability in determining stock market performance. However, the direction, magnitude, and significance of specific macroeconomic influences—particularly in African emerging markets—remain inconclusive. Many prior Ghanaian studies aggregate firms across sectors, overlooking heterogeneity in exposure to macroeconomic shocks. This study bridges that gap by isolating the manufacturing sector and examining the sector-specific impacts of interest rate, inflation, and exchange rate fluctuations over the period 2015–2024.

2.6 HYPOTHESIS DEVELOPMENT

Based on the theoretical and empirical review, the following hypotheses were formulated:

H₁: Interest rate negatively affects stock prices of manufacturing firms.

H₂: Inflation rate negatively affects stock prices of manufacturing firms.

H₃: Exchange rate positively affects stock prices of manufacturing firms.

3 METHODOLOGY

3.1 RESEARCH DESIGN

This study adopted a quantitative research design to examine the impact of macroeconomic variables—interest rate, inflation rate, and exchange rate—on the stock prices of listed manufacturing firms in Ghana. The quantitative approach allows for objective measurement, hypothesis testing, and generalization of findings. A panel data design was employed, combining time-series and cross-sectional observations to control for unobserved heterogeneity and improve estimation precision (Wooldridge, 2022).

3.2 POPULATION AND SAMPLE

The study population comprised all manufacturing firms listed on the Ghana Stock Exchange (GSE) as of 2024. A purposive sample of ten (10) manufacturing firms was selected based on data availability, consistent trading activity, and continuous listing during the study period (2015–2024). The selected firms represent diverse sub-industries, including food processing, beverages, packaging, and consumer goods—examples include Unilever Ghana, Guinness Ghana, Fan Milk, Aluworks, and PZ Cussons Ghana.

3.3 DATA AND SOURCES

The study relied exclusively on secondary data obtained from credible institutional sources:

Firm-level data (annual average closing stock prices) were extracted from the Ghana Stock Exchange Factbook and firms' annual reports.

Macroeconomic data were sourced from the Bank of Ghana (BoG), Ghana Statistical Service (GSS), and the World Bank World Development Indicators (WDI).

The selected variables were measured as follows:

Interest Rate (INT): Annual average monetary policy rate (%) published by BoG.

Inflation Rate (INF): Annual average consumer price index (CPI) percentage change.

Exchange Rate (EXR): Annual average Ghana cedi to U.S. dollar rate (GHS/USD).

Stock Price (SP): Annual average closing share price of each listed manufacturing firm.

3.4 VARIABLE MEASUREMENT

Table 1. Variable Definitions and Expected Signs

Variable	Symbol	Definition / Measurement	Expected Sign
Stock Price	SP	Annual average closing price per share	—
Interest Rate	INT	Annual average monetary policy rate (%)	—
Inflation Rate	INF	Annual average CPI (%)	—
Exchange Rate	EXR	Annual average GHS/USD exchange rate	±

Source: Author's compilation based on data from the Ghana Stock Exchange, Bank of Ghana, Ghana Statistical Service.

Higher interest and inflation rates are expected to exert negative effects on stock prices, while exchange rate depreciation could have positive or negative effects depending on firms' import or export exposure (Adjei & Amankwah, 2024; Zubairu et al., 2025).

3.5 MODEL SPECIFICATION

To estimate the impact of macroeconomic variables on stock prices, a panel regression model was specified as:

$$SP_{it} = \beta_0 + \beta_1 INT_t + \beta_2 INF_t + \beta_3 EXR_t + \varepsilon_{it}$$

Where:

- SP_{it} = Stock price of firm i at time t
- INT_t = Interest rate at time t
- INF_t = Inflation rate at time t
- EXR_t = Exchange rate at time t

ε_{it} = Random error term

The fixed-effects model was estimated. The small sample size necessitated the choice of this specification.

3.6 ESTIMATION METHODS

The following analytical techniques were applied:

1. Descriptive Statistics – to summarize the central tendency and variability of all variables.
2. Correlation Analysis – to examine the direction and strength of relationships among variables.
3. Panel Regression Analysis – to estimate the effect of macroeconomic factors on stock prices.

All estimations were conducted using EViews Student Version 12, and significance levels were tested at 1%, 5%, and 10%.

3.7 ETHICAL CONSIDERATIONS

The study used publicly available data from official institutional sources, ensuring transparency and compliance with research ethics. No human participants or confidential datasets were involved. All references and data sources were properly acknowledged in accordance with APA (7th edition) standards.

4 RESULTS AND DISCUSSION

4.1 DESCRIPTIVE STATISTICS

Descriptive statistics were used to summarize the main characteristics of the variables—stock price (SP), interest rate (INT), inflation rate (INF), and exchange rate (EXR)—for listed manufacturing firms in Ghana over the period 2015–2024.

The results indicate that the average stock price of manufacturing firms during the period was GH¢4.82, reflecting moderate market valuation with notable dispersion across firms. The mean interest rate stood at 17.4%, suggesting a generally tight monetary stance by the Bank of Ghana to contain inflation and currency depreciation. The average inflation rate was 10.7%, consistent with Ghana's inflation-targeting framework, while the mean exchange rate was GHS 7.21/USD, indicating persistent currency depreciation over the study period.

Overall, the data reveal a macroeconomic environment characterized by high interest rates, moderate inflation, and sustained currency depreciation—conditions typical of many emerging African economies. These dynamics provide an important context for understanding their combined influence on stock price performance.

4.2 CORRELATION ANALYSIS

Correlation analysis examined the pairwise relationships among the study variables. The results showed that interest rate was negatively correlated with stock price ($r = -0.48$), implying that rising borrowing costs dampen investor demand and firm profitability. Inflation rate also exhibited a negative correlation ($r = -0.31$), suggesting that price instability weakens real returns and investor confidence. Conversely, exchange rate demonstrated a positive correlation

($r = 0.43$), indicating that cedi depreciation may improve export competitiveness and enhance the valuation of export-oriented manufacturing firms.

These preliminary relationships are consistent with theoretical expectations and prior empirical studies (Der et al., 2020; Adjei & Amankwah, 2024). However, correlation analysis alone does not establish causality; therefore, panel regression was employed to estimate the magnitude and significance of these effects.

4.3 FIXED-EFFECTS REGRESSION RESULTS

Panel regression analysis was conducted using the fixed-effects model. This is presented in Table 2 below

Table 2. Fixed-Effects Regression Results

Variable	Coefficient (β)	Std. Error	t- Statistic	p- Value	Significance
Interest Rate (INT)	-0.312	0.095	-3.28	0.002	Significant (1%)
Inflation Rate (INF)	-0.124	0.101	-1.22	0.225	Not significant
Exchange Rate (EXR)	0.451	0.136	3.31	0.001	Significant (1%)
Constant	1.974	0.529	3.73	0.000	—

Source: Author's computation from the study data using the fixed-effects panel regression model.

Model diagnostics:

- R^2 (Within) = 0.64
- F-statistic = 17.94
- Prob (F) = 0.000

The R^2 value indicates that 64% of variations in stock prices are explained by the three macroeconomic variables, confirming their substantial collective influence on equity valuation.

4.4 DISCUSSION OF FINDINGS

4.4.1 INTEREST RATE AND STOCK PRICES

The analysis reveals a significant negative effect of interest rate on stock prices ($\beta = -0.312$, $p < 0.01$). This supports the Arbitrage Pricing Theory (APT), which posits that higher interest rates increase required returns and reduce the present value of equities. Rising policy rates raise the cost of capital for manufacturing firms, limit expansion, and reduce investor demand for equities. This finding aligns with Der et al. (2020) and Hunjra et al. (2023), who reported similar results in African and South Asian markets.

In Ghana, the frequent upward adjustments of the Monetary Policy Rate (MPR) during 2021–2023 to combat inflation and currency depreciation constrained liquidity, increased lending rates, and depressed stock valuations.

4.4.2 INFLATION RATE AND STOCK PRICES

Inflation displayed a negative but statistically insignificant relationship with stock prices ($\beta = -0.124$, $p > 0.05$). Although inflation theoretically reduces real returns and raises uncertainty, the weak statistical relationship may suggest that Ghana's manufacturing firms and investors partially adapt to moderate inflationary conditions. Some firms may hedge against inflation by adjusting output prices or enhancing operational efficiency.

This finding is consistent with Agyapong and Asiedu (2024), who found that moderate inflation does not significantly alter market valuation in Ghana's industrial sector. It also mirrors Meero (2022) and Mahama (2023), who observed that inflation's impact on stock prices weakens when firms can pass part of the cost increases to consumers.

4.4.3 EXCHANGE RATE AND STOCK PRICES

Exchange rate exhibited a positive and statistically significant effect on stock prices ($\beta = 0.451$, $p < 0.01$). This implies that cedi depreciation enhances the valuation of manufacturing firms—particularly those engaged in exports—by increasing foreign-currency earnings when converted to domestic currency. This result aligns with the Exchange Rate Exposure Hypothesis (Adam

& Quansah, 2019) and corroborates findings by Al-Qudah and Saleh (2024) and Zubairu et al. (2025).

For Ghana, where several listed manufacturers export within the ECOWAS subregion, a weaker cedi enhances export competitiveness and profitability. However, the benefit is uneven, as import-dependent firms may experience higher input costs. The overall positive coefficient reflects a net gain for the sector due to export-oriented firms' dominance.

The hypotheses are summarized in Table 3.

Table 3. Hypothesis Testing Results

	Hypothesis	p-Value	Decision	
<i>Source: computation fixed-effects results.</i>	H₁	0.002	Supported	<i>Author's based on the regression</i>
	H₂	0.225	Not supported	
	H₃	0.001	Supported	

4.5 COMPARISON WITH PREVIOUS STUDIES

The current findings broadly align with both international and local empirical literature. The significant negative influence of interest rates supports results by Meero (2022) and Adjei (2023). The insignificant effect of inflation corresponds with findings from Singh and Tandon (2023), while the positive exchange rate effect mirrors evidence from Hunjra et al. (2023) and Zubairu et al. (2025).

Collectively, these outcomes reaffirm the APT framework's assertion that macroeconomic variables significantly influence asset prices. They further highlight the high sensitivity of Ghana's manufacturing sector to monetary and exchange rate fluctuations, reflecting the partial efficiency of the domestic equity market.

5 CONCLUSION AND RECOMMENDATIONS

5.1 CONCLUSION

This study examined the impact of key macroeconomic variables—interest rate, inflation rate, and exchange rate—on the stock prices of listed manufacturing firms on the Ghana Stock Exchange (GSE) over the period 2015–2024. Anchored in the Arbitrage Pricing Theory (APT) and the Efficient Market Hypothesis (EMH), the research employed a panel data framework using fixed-effects regression to assess the magnitude and direction of macroeconomic influences on stock price performance.

The findings reveal that interest rate has a significant negative effect on stock prices, indicating that rising borrowing costs and tighter monetary policy reduce equity demand and firm profitability. Inflation rate, though negatively related to stock prices, was statistically insignificant, implying that moderate inflationary movements do not substantially alter investor valuation within Ghana's manufacturing sector. Conversely, exchange rate depreciation demonstrated a positive and significant impact, suggesting that a weaker Ghanaian cedi enhances export competitiveness and firm profitability.

Overall, the results confirm that manufacturing stock prices in Ghana are highly responsive to macroeconomic dynamics, particularly interest rate and exchange rate movements. The evidence supports the APT's proposition that macroeconomic variables constitute systematic risk factors influencing asset valuation. It also indicates that Ghana's stock market operates with partial efficiency, where investor responses to macroeconomic information occur but may not be fully rational or immediate.

5.2 POLICY AND MANAGERIAL IMPLICATIONS

The findings have several important implications for monetary authorities, corporate managers, and investors.

Monetary Policy: The significant negative relationship between interest rates and stock prices underscores the need for the Bank of Ghana to maintain a balanced approach between inflation control and growth stimulation. Excessively high policy rates can stifle industrial expansion

and dampen investor confidence. Predictable and gradual policy adjustments can promote financial stability and improve market performance.

Exchange Rate Management: The positive effect of exchange rate depreciation suggests that a moderately weak but stable cedi may benefit export-oriented manufacturing firms by improving competitiveness. Policymakers should, however, avoid excessive volatility, which raises import costs and uncertainty. Building foreign reserve buffers and promoting export diversification can help sustain macroeconomic stability.

Inflation Control: Although inflation's effect was statistically insignificant, sustained price stability remains vital for investor confidence. Stable inflation rates reduce uncertainty in business planning and strengthen the role of equities as inflation hedges.

Corporate Strategy: Manufacturing firms should adopt hedging mechanisms such as forward contracts and currency diversification to mitigate exchange rate risk. Firms with high import dependency should optimize operational efficiency and cost control to remain competitive during exchange rate fluctuations.

Investor Decision-Making: Investors should monitor macroeconomic indicators—particularly interest and exchange rate trends—when valuing manufacturing stocks. Diversifying portfolios across sectors with different macroeconomic sensitivities can minimize exposure to systemic shocks.

5.3 LIMITATIONS AND FUTURE RESEARCH

While the study provides robust evidence, several limitations suggest areas for future inquiry:

1. The analysis was restricted to three macroeconomic variables. Future research could incorporate additional indicators such as GDP growth, money supply, or foreign direct investment (FDI) to capture broader economic effects.
2. The sample was limited to the listed manufacturing firms. Comparative studies across other sectors, such as banking or telecommunications, may yield a more comprehensive view of market dynamics.
3. The use of fixed-effects estimation limits dynamic modeling. Future studies could apply advanced econometric techniques—such as Vector Error Correction Models (VECM)

or Generalized Method of Moments (GMM)—to explore short- and long-run relationships.

4. Incorporating behavioral finance variables, such as investor sentiment indices, could deepen understanding of how psychological factors interact with macroeconomic conditions to influence stock valuation.

5.4 FINAL REMARKS

In conclusion, the study affirms that macroeconomic stability is crucial for sustaining stock market performance and industrial growth in Ghana. Managing interest rate and exchange rate volatility is essential to maintaining investor confidence and ensuring long-term capital market development. By reinforcing prudent monetary management, exchange rate predictability, and inflation control, policymakers can enhance the resilience of Ghana's manufacturing sector and strengthen its role in national economic transformation.

6 DECLARATIONS

Funding: This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors.

Conflict of Interest: The author declares no competing interests.

Ethical Approval: Not applicable (no human subjects or confidential data used).

Data Availability: All data used were obtained from publicly available institutional sources, including the Ghana Stock Exchange, Bank of Ghana, and World Bank databases.

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