ISSN 0976-5239
JOURNAL OF
ECONOMICS

J Economics, 7(1): 1-10 (2016)

The Interaction between the Stock Market and Macroeconomic Policy Variables in South Africa

Khanyisa Ntshangase, Kapingura Forget Mingiri*[*] and M. Makhetha Palesa

University of Fort Hare, Department of Economics, East London, South Africa

KEYWORDS Johansen Cointegration Test. Vector Error Correction Model. Macroeconomic Variables. Stock Market Performance. Development Finance

ABSTRACT The paper empirically examines the relationship between the stock market and macroeconomic policy variables in South African for the period from 1994 to 2012. The Johansen cointegration test and the restricted VAR model were employed to analyse the relationship between the variables of interest. The chosen method explicitly calculates the disturbances by inverting an estimated structural VAR of the relationship among the contemporaneous VAR residuals. The findings from the study suggest that there exists a long-term relationship between the selected macroeconomic variables and the stock market in South Africa. The results show that changes in money supply, interest rate, inflation, exchange rate and government expenditure are transmitted into the stock market. Thus achieving macroeconomic equilibrium is of great importance as any disequilibrium will be fed into the stock market which eventually might compromise its role of mobilising and allocating development financial resources to productive sectors of the economy.