The Spillover Analysis on the African Stock Markets in the Crisis Period

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This paper examines the relative importance of the global and regional markets for financial markets in developing countries, especially during the recent turmoil in global financial markets. In particular, we investigate the return transmissions in seven African stock markets (Egypt, Mauritius, Morocco, Namibia, South Africa, Tunisia, and Zambia) for the period between September 1, 2004 and March 29, 2013 by using the spillover indices based on the forecast error variance decompositions from a generalized impulse response function introduced by Diebold and Yilmaz (2012). In addition, we examine how the degree of regional (seven African markets combined), global (China, France, Germany, Japan, UK and US), commodity (gold and petroleum), and nominal effective exchange rates (Euro and US Dollar) transmission to individual African countries evolve during the US sub-prime and European sovereign debt crises. We find that regional spillovers among African countries are insulated from global crises but African markets are severely affected by spillovers from commodity and currency markets as well as from global markets.

Keywords: Spillover; Variance decomposition; African financial market; Financial crisis; Market linkage.
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