How stock markets and economic development interact: evidence from the BRICS countries

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Abstract

This paper deals with the verification of the assumption of forecasting ability of stock indices in the BRICS countries. The literature review focuses on the definition of the financial and stock markets, measuring the economic performance and the interdependence of stock markets and economic growth, which is described using the above types of causality "supply-leading", "demand-following", "feedback", "neutral" and "negative". The analytical part is based on time series of GDP and stock indices of the BRICS countries in different sub-periods from 2004 to 2020, which are processed using correlation analysis, VAR models and Granger causality test, which is used to determine the existence and possible direction and strength of the causal relationship between the variables. The results show that the role of stock indices as a leading economic indicator is overestimated. However, GDP and stock indices interact, the strength and direction of causal relationships is affected by number of factors.

Keywords: Correlation analysis; GDP; Granger test causality; stock index; VAR model.