

[PDF] Exchange Rate Movements And The South African Economy: A VAR Analysis

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Description:

South Africa's New Growth Path (NGP) proposed that a depreciation of the Rand would significantly stimulate economic growth. In addition to a depreciated Rand, the NGP stated that the South African Reserve Bank was to continue to target low stable inflation as well as maintain a low interest rate environment to encourage investment. This book sought to investigate how movements of the exchange rate affect real GDP, prices and interest rates. To accomplish this, a thorough literature review and empirical investigation was conducted. To assess how real GDP, prices and interest rates

respond to movements of the exchange rate, a VARX model was estimated for the South African economy and then analyzed using impulse response functions and forecast error variance decompositions with the effect of foreign aggregate demand assessed using dynamic multiplier functions. This research found that the South African real GDP responds positively to depreciations of the Rand, however prices and interest rates have too been found to increase following a depreciation of the Rand.

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