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The Impact of Macroeconomic Variables on Stock Market Performance in Egypt

A Thesis Submitted in Fulfilment of the Requirements
For the Master's Degree in Economics

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Abstract

The thesis aims to study the impact of macroeconomic variables on stock market performance in Egypt from 2008 to 2021. It primarily hypothesizes the existence of long-run relationship between macroeconomic variables and Egyptian stock prices. Sub-hypotheses will also be tested: (1) The impact of macroeconomic variables on Egyptian stock market performance varies, including the global environment; (2) The financial instability in June 2013, the economic reform program in November 2016, and the COVID-19 pandemic all had an impact on the performance of both the Egyptian macroeconomic variables and stock market prices. Since 2008, the Egyptian economy has been subjected to many domestic and global events and shocks that have impacted both macroeconomic performance and the stock market. The most significant of these shocks are the global financial crisis that began in 2008, the political instability that Egypt experienced in 2011 and 2013, the sharp depreciation of the Egyptian pound against the US dollar until it floated in November 2016, the sharp fluctuations in world oil prices, and the spread of the COVID-19 pandemic. Moreover, the current thesis empirically investigates the impact of selected macroeconomic variables on stock prices (EGX100) in Egypt using the Autoregressive Distributed Lags (ARDL) bound test on monthly data covering the period from March 2013 to December 2021. Employed macroeconomic variables include, nominal effective exchange rate (NEX), industrial production (IPI), interbank rate (IR), inflation (CPI), domestic liquidity (M2), Brent oil price (OP), and the budget deficit as a percentage of GDP (BD). According to the ARDL findings, there exists a long-run equilibrium relationship between the EGX100 and the employed macroeconomic variables. As in the long run, a 10% increase in NEX and IR decreases the EGX100 index by 3.72% and 0.70%, respectively, whereas a 10% increase in IPI, CPI, and M2 increases the EGX100 index by 0.35%, 1.64%, and 4.45%, respectively. DUM1 coefficient is negative and significant. As a result, it statistically led to a rise in EGX100 index's stock prices by around 0.25%. While DUM2 coefficient is positive and significant. As a result, it leads to an increase in EGX100 index's stock prices by 0.10%. Finally, the COVID-19 pandemic has a negative and insignificant impact on the EGX100 index's share prices. Long-term coefficients are higher than short-term elasticities, which could be explained by the ability to accommodate any shock in the long run. In the short term, the COVID-19 pandemic has a negative and significant impact on the EGX100 index. Furthermore, the coefficient of the error correction component is negative and stationary, indicating that the model is stable. If the long-term equilibrium relationship between the variables of the model changes, the speed of adjustment is 16.9% each month. As a result, it takes around 6 months to adjust towards the long-run relationship.

Keywords: Macroeconomic variables, Stock Market Performance, Autoregressive Distributed Lags (ARDL) Bound Test, Egypt.

JEL Classifications: E44, C22.