

# THE SOUTH AFRICAN ECONOMY AND ITS ASSET MARKETS -AN INTEGRATED APPROACH-

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In this paper we attempt to identify and measure many of the most important forces and feed back effects that link the real South African economy to the global economy and to global and domestic asset markets. We show that the essentials of the relationships between the South African economy and its domestic share and housing markets can be captured in a general equilibrium model with a relatively small number of equations. Despite the simplicity of its structure, convenient for heuristic purposes, it is demonstrated that the model can consistently forecast the growth rate turning points of an important set of economic variables up to one-year ahead. The model is distinctive in that it incorporates wealth effects and it is shown that the domestic share market and housing market help explain the growth in private consumption and investment spending. The model also incorporates the important feed back loops between the balance of payments, interest rates and the growth in the money supply.

The paper has the following structure . In section 1 we offer a description of the South African business and financial cycles and explain how the real economy and its financial markets interact with and react to each other. We provide a diagram to summarize the links and feed back effects between the important economic magnitudes. In section 2 we present the formal model and examine some of the key exogenous and endogenous variables. In section 3 we present the econometric results, including the results of a set of dynamic out of period forecasts, and comment upon them.