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THE INFLUENCE OF GLOBALISATION AND MONETARY POLICY ON THE STOCK MARKET PERFORMANCE IN SOUTH AFRICA

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ABSTRACT

Purpose: This study examines the impact of globalisation and monetary policy on stock market performance in South Africa from 1975 to 2024.
Design/Methodology/Approach: Using annual time series data, the Autoregressive Distributed Lag (ARDL) bounds testing approach is applied to capture both short- and long-run dynamics. Diagnostic tests revealed that money supply and exchange rate were highly volatile, while globalisation was relatively stable. The unit root and bounds test results confirmed long-run cointegration among the variables.
Findings: The short-run estimates showed that money supply and globalisation positively influenced market capitalisation, whereas exchange rate volatility exerted a negative effect. Interest rate changes were insignificant, indicating limited short-term transmission. In the long run, money supply remained a key driver of stock market performance, while persistent exchange rate depreciation reduced market growth. Globalisation exhibited mixed effects: negative in the baseline model but strongly positive when interacting with monetary policy, highlighting the conditional benefits of integration
Implications/Originality/Value: The study recommends that policymakers strengthen institutions and safeguard the stock market from external shocks, while the South African Reserve Bank manages money supply expansion to support growth without fueling inflation or capital flight. Ensuring exchange rate stability and monitoring the interaction between globalisation and monetary policy are also crucial, as the effectiveness of liquidity expansion in driving stock market outcomes depends on the extent of international integration.

Keywords: Globalisation, Monetary Policy, Stock Market Performance, Emerging Economies

INTRODUCTION

The performance of the South African stock market has been inconsistent, raising concerns about its effectiveness in driving economic growth. Despite being one of the most advanced financial markets in Africa, the stock market has exhibited significant volatility, with fluctuations in market capitalisation, liquidity levels, and investor confidence (Mudiangombe & Mwamba, 2023), exacerbated by the complex interplay of globalisation and monetary policy as South Africa remains highly exposed to external economic shocks (Korsah & Mensah, 2024). According to World Bank (2023) data, the Johannesburg Stock Exchange

(JSE) market capitalisation as a percentage of GDP fluctuated from fluctuated significantly from 183.9% in 2000 to 245.6% in 2010, reaching 317.5% in 2015, before slightly declining to 305.3% in 2021 due to recent economic shocks, including the COVID-19 pandemic and global supply chain disruptions.

Similarly, the globalisation index increased from 59.2% in 2000 to 69.5% in 2022 (Mukhtar & Abdulqadir, 2025), indicating deeper integration into the global economy; however, stock market performance has not shown a consistent upward trend despite increasing globalisation. Furthermore, according to the World Bank (2023) data, money supply (M2 as a percentage of GDP) grew from 47.4% in 2000 to 72.5% in 2023, yet stock market volatility persisted, suggesting a complex relationship between monetary policy and market stability.
Moreover, over the years, several policy measures have been implemented to stabilise the South African stock market and enhance its contribution to economic growth. This includes the adoption of inflation targeting in 2000 which sought to maintain price stability and investor confidence (Kotsokoane & Rena, 2021), and the relaxation of exchange controls and financial sector reforms to encouraged foreign direct investment (FDI) and foreign portfolio investment (FPI) which enabled South Africa to attract over $4 billion in net FPI inflows in 2023 (SARB, 2023).

Additionally, South Africa has pursued deeper global integration through BRICS membership and the African Continental Free Trade Area (AfCFTA), while the Johannesburg Stock Exchange (JSE) has strengthened linkages with international markets. Foreign investment inflows into South Africa's equity markets reached over $5 billion in 2022 (SARB, 2023), and the JSE remains Africa's largest stock exchange by market capitalisation. However, these measures have failed to ensure long-term stability and growth. For instance, the JSE's all-share index has underperformed compared to emerging market peers, with a 10-year average return of just 4.2%—far below Brazil's Bovespa (9.1%) and India's Nifty 50 (12.3%) (Akinsomi et al., 2025). Structural issues such as stagnant economic growth (averaging below 1% GDP growth since 2019), persistent load-shedding, and policy unpredictability, particularly around land reform and Black Economic Empowerment (BEE) regulations, have deterred sustained investment (Munkuli, 2024).

Moreover, persistent inflationary pressures, high interest rates, and exchange rate fluctuations have dampened investor confidence, with the rand depreciating by 18% against the US dollar in 2023 (Ndou, 2024). Weak enforcement of corporate governance standards and recurring corruption scandals, including the $30 billion lost to state capture (Pillay, 2022), have further eroded investor confidence, leaving the stock market vulnerable to external shocks and domestic instability.

Furthermore, there is an ongoing theoretical debate regarding the impact of globalisation on stock markets. Some scholars, such as Boltayeva (2024) and Ogunbiyi et al. (2024), argued that globalisation fosters stock market growth by attracting foreign investment, improving market liquidity, and enhancing risk-sharing opportunities. The financial integration hypothesis suggests that greater global financial flows increase efficiency in capital allocation, thereby boosting stock market performance. However, opposing views highlight the risks of globalisation, including increased exposure to global financial crises, speculative trading, and capital flight (Mbulawa, 2022). Also, the contagion effect theory suggests that globalisation

can lead to financial instability, especially in emerging markets, as they become more vulnerable to external shocks (Sudjono, 2024). These contrasting perspectives raise questions about whether globalisation has a net positive or negative effect on the SA stock market. Similarly, the effect of monetary policy on stock market performance remains debated. The Keynesian school of thought posits that expansionary monetary policy, characterised by lower interest rates and increased money supply, stimulates investment and stock market growth (Mueller, 2025). The Real Activist Theory (RAT) supports this view, suggesting that an increase in money supply enhances stock market performance by providing more liquidity for investment (Frazer, 2023). Conversely, the Monetarist perspective of Friedman (1968) argues that excessive monetary expansion leads to inflation and economic distortions, negatively impacting stock market stability (Mohanti & Banerjee, 2024).

Furthermore, the Efficient Market Hypothesis (EMH) developed by Fama (1970) suggested that monetary policy actions are already factored into stock prices, implying that monetary policy has minimal long-term impact on stock market performance (Liu et al., 2022). These conflicting views necessitate further empirical investigation into the role of monetary policy in shaping South Africa's stock market performance. Empirically, research on the correlation between globalisation, monetary policy, and stock market performance has largely examined these variables in isolation. Most research focuses either on the impact of globalisation on stock markets (Dabwor et al., 2022; Ajagbe et al., 2024) or on the influence of monetary policy on market stability (Lee, 2023; Chen & Phelan, 2023), without specifically investigating how globalisation mitigates or intensifies the impact of monetary policy on stock market volatility.

Additionally, while studies on South Africa's stock market exist (Trecy et al., 2024), the combined impact of monetary policy and globalisation on stock market performance has received minimal empirical scrutiny, creating a significant empirical gap. This study seeks to bridge this gap by empirically analysing the interactive effects of globalisation and monetary policy on South Africa's stock market performance. By employing a robust methodological framework, this research will determine whether globalisation amplifies or mitigates the impact of monetary policy on stock market stability and growth.

LITERATURE REVIEW

Several empirical studies have been carried out on monetary policy and stock market performance, but present mixed results across countries. For instance, using a panel of 10 African countries, Asiedu et al. (2020) examined the impact of monetary policy on stock market performance covering 1980 to 2019. The study used data on broad money supply, real interest rate, inflation rate, exchange rate, commercial bank credits, stock market capitalisation, and stock market turnover. The study estimated a panel VECM and found that broad money supply has a positive impact on stock market performance, while interest rate and inflation have a significant negative effect on stock market performance in the long run, respectively. In the South African economy, Marozva (2020) analysed the monetary policy effects on stock market performance from 1995 to 2019. Employing the GARCH (1,1) model, the study found that the interest rate has a significant positive effect on stock market returns, while the exchange rate negatively impacts it. Furthermore, the study showed that the exchange rate and the interest rate had a significant positive impact on stock market volatility,

respectively. In the context of the Nigerian economy, Alugbuo and Chika (2020) investigated the monetary policy effects on stock market performance covering the period 1981 to 2018. The study used data on the share index, broad money supply, treasury bill rate, interest rate, and consumer price index. Applying the ARDL regression technique, the study found that both the treasury bill rate and the consumer price index exerted a negative influence on stock market performance in both the short and long run; however, the effect of the treasury bill rate was statistically insignificant. Additionally, interest rate demonstrated a positive and significant impact on stock market performance over both time horizons. In contrast, money supply had a negative short-run effect but transitioned to a positive and significant influence in the long run.

Also in Nigeria, Tiamiyu (2022) analysed the relationship between the financial sector and stock market development from 1981 to 2019. The study used data on the all-share index, real GDP, broad money supply, financial development index, and the saving to GDP ratio. Employing the ARDL regression approach, the study found that broad money supply negatively impacts stock market performance in the short and long run. However, the study showed that real GDP and the saving-to-GDP ratio positively impact stock market development both in the short and long run. Covering the period 1980 to 2021, Shumba and Mukorera (2023) investigated the impact of monetary policy on macroeconomic performance in the common monetary area. Utilising a Panel Structural Vector Autoregressive (Panel-SVAR) model, the results indicate that a positive shock to South Africa's repo rate leads to a statistically significant reduction in real GDP growth, a decline in inflation, a contraction in money supply, and a rise in lending rates across the entire Common Monetary Area (CMA) region. In the context of the ECOWAS countries, Prao and Kongoza (2025) examined the asymmetric effect of monetary policy on stock market performance from 2000 to 2021.

The study used data on stock market returns and turnover, broad money supply, inflation rate, real GDP, and exchange rate, respectively. Applying the panel non-linear ARDL approach, the results indicate that, in the short run, expansionary monetary policy exerts a statistically significant negative effect on stock market performance, while contractionary monetary policy has a statistically significant positive effect. In the long run, however, expansionary monetary policy significantly enhances stock market performance, whereas contractionary monetary policy adversely affects it.

Similarly, studies on globalisation and stock market performance in Africa report mixed findings. Using a panel of 5 African countries, including South Africa, Onyele and Ikwuagwu (2020) investigated the effect of globalisation on stock market returns from 2000 to 2018. The study employed the Pooled Mean Group (PMG)/ARDL estimation method as the tool for data analysis and found that globalisation, foreign direct investment, and exchange rate had positive and significant long-run effects on stock market returns, while trade openness had a negative and significant long-run effect. In the short run, the globalisation index and trade openness exerted positive impacts, whereas FDI and exchange rate had negative effects on stock market returns. Among these, only trade openness was statistically significant in the short-run dynamics. Furthermore, a unidirectional causality was observed from globalisation, exchange rate, and trade openness to stock market returns in the selected African markets. From March 2020 to December 2020, Insaidoo et al. (2024) examined the impact of financial globalisation on the long-run volatility of forex and stock markets during COVID-19 in eight

selected 8 African countries, including South Africa. Applying the panel Fully Modified Ordinary Least Squares (FMOLS) and Dynamic Ordinary Least Squares (DOLS) techniques, the study found that financial globalisation harmed the volatility spillover from foreign exchange markets to stock markets. In contrast, it had a positive impact on the volatility transmission from stock markets to foreign exchange markets, amplifying the effect.

Moreover, the results revealed a bidirectional long-run volatility relationship between the two financial markets during the COVID-19 pandemic period in Africa. In the case of the Nigerian economy, Ajagbe et al. (2024) investigated the effect of globalisation on stock market growth from 1986 to 2023. The study used annual data on market capitalisation of the stock market, foreign direct investment, trade openness, inflation rate, and interest rate. The study showed that FDI and trade openness have a significant positive impact on stock market growth both in the short and long run. However, interest rate and inflation rate had negative short and long-run impacts on stock market growth, respectively.

Similarly, in Nigeria, Udeaja et al. (2024) analysed the effect of globalisation and geopolitical risks on stock market performance from 1985 to 2021. The study used market capitalisation and the all-share index as a proxy to measure stock market performance and employed the dynamic ordinary least squares (DOLS) technique. The study found that globalisation and geopolitical risks have a significant negative impact on stock market performance, irrespective of the stock market performance measure adopted.

It can be observed that the literature on globalisation, monetary policy, and stock market performance remains fragmented, as most studies focus on either globalisation (Onyele & Ikwuagwu, 2020; Insaidoo et al., 2024) or monetary policy (Asiedu et al., 2020; Marozva, 2020; Alugbuo & Chika, 2020) in isolation, without modelling globalisation as a moderator of monetary policy in shaping stock market outcomes. Methodologically, existing works rely on ARDL, GARCH, Panel-VECM, or DOLS, often assuming linear effects and ignoring interaction dynamics; even studies on asymmetry (Prao & Kongoza, 2025) or volatility transmission (Insaidoo et al., 2024) did not incorporate moderation analysis. Geographically, most evidence is drawn from Nigeria (Alugbuo & Chika, 2020; Tiamiyu, 2022; Ajagbe et al., 2024; Udeaja et al., 2024) or multi-country panels (Asiedu et al., 2020; Prao & Kongoza, 2025), with limited South Africa-specific studies. The only exception, Marozva (2020), who examined monetary policy in South Africa but excluded globalisation. Consequently, little is known about how globalisation and monetary policy jointly influence stock market performance in South Africa, a gap this study seeks to address.

METHODOLOGY

The model of Ogunro et al. (2025) is adopted with modifications in this study to investigate the effect of globalisation and monetary policy on stock market performance in South Africa. The model used by Schmukler (2004) in his study to analyse the impact of globalisation on the financial sector in developing countries is:

$$ASI = f(FDI, MS, ExR) \quad (1)$$

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Where ASI is the all-share index, FDI is the foreign direct investment, MS is the broad money supply, and ExR is the exchange rate, respectively. However, the model for this study is presented as:

$$\text{MkCap} = f(\text{GIdx}, \text{MS}, \text{IntR}, \text{ExR}) \quad (2)$$

Where MkCap is the market capitalisation index (which is employed due to data availability and accuracy), GIdx is the globalisation index, MS is the broad money supply, IntR is the interest rate, and ExR is the exchange rate, respectively. In econometric form, the functional model in Equation (2) is presented as:

$$\ln(\text{MkCap}_t) = \beta_0 + \beta_1 \ln(\text{GIdx}_t) + \beta_2 \ln(\text{MS}_t) + \beta_3 \ln(\text{IntR}_t) + \beta_4 \ln(\text{ExR}_t) + \varepsilon_t \quad (3)$$

Where the beta parameters are the elasticities to be estimated, and the stochastic error term is considered to be independent and identically distributed. Moreover, to examine the moderation effect of globalisation on the two monetary policy variables, money supply and interest rate, the model in Equation (3) is adopted and modified to include interaction terms:

$$\begin{aligned}\ln(\text{MkCap}_t) = {} & \beta_0 + \beta_1 \ln(\text{GIdx}_t) + \beta_2 \ln(\text{MS}_t) + \beta_3 \ln(\text{GIdx}_t) * \ln(\text{MS}_t) + \beta_4 \ln(\text{IntR}_t) \\ & + \beta_5 \ln(\text{GIdx}_t) * \ln(\text{IntR}_t) + \beta_6 \ln(\text{ExR}_t) \\ & + \varepsilon_t \end{aligned} \quad (4)$$

Where the variables retain their meaning. In Equation (4), the parameter β3 reflects how globalisation moderates the effect of money supply on stock market performance. A positive value implies that greater globalisation strengthens the influence of money supply on the All-Share Index, as monetary expansion under global integration may attract capital inflows and improve liquidity. A negative value suggests that globalisation weakens this relationship, as external pressures or capital flight may limit the domestic impact of money supply. If β3 equals zero, globalisation has no moderating role. Also, the parameter β5 captures the moderating effect of globalisation on the relationship between interest rates and stock market performance. A positive value means that globalisation enhances the effect of interest rates, for instance, by attracting foreign investors seeking higher returns in a more open economy. A negative value indicates that globalisation dampens this relationship, as higher rates may discourage domestic investment or trigger capital outflows. A zero coefficient would show no moderation. Together, β3 and β5 reveal whether globalisation acts to strengthen or weaken the effectiveness of monetary policy variables, money supply and interest rates in shaping stock market outcomes.

Data and Source

This study used annual secondary data from 1974 to 2024 to analyse the relationship between globalisation, monetary policy, and stock market performance in South Africa. Stock market performance was proxied by all-share market capitalisation obtained from the World Development Indicators (WDI). Globalisation was measured using the KOF Globalisation Index from the KOF Swiss Economic Institute.

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Money supply was captured as broad money expressed as a percentage of GDP, while the exchange rate (official LCU per US$) and the lending interest rate (%) were all sourced from WDI.

RESULTS

Table 1: Descriptive statistics

Variable	Mean	Std. Dev.	Max	Min
ASI	450.39	400.48	1231.0	19.70
GIdx	53.209	15.168	71.415	34.77
MS	1351.5	1595.0	5430.4	16.88
IntR	13.751	4.2641	22.333	7.042
ExR	6.6667	5.2430	18.450	0.740

Source: Researcher's computation, 2025

The descriptive statistics in Table 1 outline the behaviour of the study variables. First, the All-Share Index (ASI), with a mean of 450.39 and a high standard deviation of 400.48, indicates a volatile and strongly cyclical equity market. Its wide range (19.7–1231.0) reflects substantial fluctuations driven by both domestic developments and global financial conditions. Also, the globalisation index (GIdx) has a mean of 53.21 and a moderate standard deviation of 15.17, suggesting a relatively stable level of openness over time. This stability aligns with South Africa's consistent engagement with global markets despite periodic global shocks. Moreover, the money supply (MS) shows significant variability, with a mean of 1351.5% of GDP, a large standard deviation of 1595.0, and an extensive range (16.88–5430.4). These values reflect alternating periods of liquidity expansion and contraction shaped by monetary policy adjustments and external capital flow cycles. Furthermore, the interest rates average 13.75%, with moderate dispersion (standard deviation = 4.26) and a range of 7.04% to 22.33%. This reflects policy responsiveness to inflation, exchange rate movements, and broader macroeconomic pressures. Lastly, the exchange rate, averaging 6.67 LCU/US$, exhibits considerable volatility, as shown by its standard deviation of 5.24 and a wide range of 0.74–18.45. This underscores South Africa's exposure to external shocks, commodity price swings, and shifts in global risk sentiment.

Table 2: Unit root test summary

Variable	ADF		Phillips-Perron		Order
	Level	Diff	Level	Diff	
MkCap	-2.540	-7.421***	-2.513	-7.767***	I(1)
GIdx	-2.583	-3.399*	-1.530	-3.441*	I(1)
MS	-0.445	-4.521***	0.798	-4.330***	I(1)
IntR	-2.444	-6.779***	-2.309	-6.106***	I(1)
ExR	-1.818	-5.697***	-2.034	-5.283***	I(1)

Note: *** p < 1%, ** p < 5%, * p < 10%

The unit root test results in Table 2 show that market capitalisation, globalisation index, money supply, interest rate, and exchange rate are all non-stationary at levels but become stationary after first differencing, indicating that the variables are integrated of order one, I(1).

Given this outcome, ordinary least squares and Johansen cointegration, which require variables to be of the same integration order, are unsuitable. Instead, the Autoregressive Distributed Lag (ARDL) bounds testing approach developed by Pesaran et al. (2001) is adopted because it accommodates a mixture of I(0) and I(1) variables, provided none is I(2). In addition, the ARDL framework is particularly useful for this study because it estimates both short-run and long-run relationships simultaneously and performs reliably with small sample sizes, which are common in macroeconomic and financial studies (Nkoro & Uko, 2016). These advantages make ARDL the most appropriate technique for analysing the dynamic interactions among globalisation, monetary policy, and stock market performance in South Africa.

Table 3*:* ARDL Short-Run and Long-Run Estimates

Independent Variable	Dependent Variable: $\Delta\ln(MkCap_t)$	
Long-run estimates	Model 1	Model 2
$\ln(GIdx_t)$	-1.580***	11.33**
	(0.380)	(4.450)
$\ln(M2_t)$	1.249***	3.321***
	(0.115)	(0.585)
$\ln(IntR_t)$	-0.173	-1.440
	(0.177)	(2.121)
$\ln(GIdx_t)*\ln(M2_t)$		-0.511***
		(0.147)
$\ln(GIdx_t)*\ln(IntR_t)$		0.244
		(0.540)
$\ln(ExR_t)$	-0.710***	-0.847***
	(0.187)	(0.156)
Constant	0.526	-50.65***
	(2.971)	(16.70)
Short-run estimates		
$\Delta\ln(GIdx_t)$	1.016	10.16**
	(0.814)	(3.966)
$\Delta\ln(M2_t)$	1.016***	2.977***
	(0.248)	(0.571)
$\Delta\ln(IntR_t)$	-0.141	-1.291
	(0.138)	(1.863)
$\Delta\ln(GIdx_t)*\ln(M2_t)$		-0.458***
		(0.127)
$\Delta\ln(GIdx_t)*\ln(IntR_t)$		0.218
		(0.478)
$\Delta\ln(ExR_t)$	-1.002***	-0.759***
	(0.196)	(0.182)
Adjustment term		
Ect_{t-1}	-0.813***	-0.896***
	(0.111)	(0.100)
Adj. R^2	0.975	0.591
LM Test	0.176	0.089
White Test	4.806	4.410

F-bound Test	7.194***	8.528***

Note: Models 1 and 2 are based on ARDL (1,1,0,0,1) and (1,0,0,0,0,0,0). *** p < 1%, ** p < 5%, * p < 10%.

Table 3 presents the ARDL short and long run estimates for the regression models employed to analyse the relationship between globalisation, monetary policy, and stock market performance in South Africa. The result showed the computed bound tests (7.194 and 8.528) are significant at 1% level, confirming a long-run relationship between the dependent variable and the predictors. Also. The adjustment term (ECT) is negative and highly significant in both models (–0.813 in Model 1 and –0.896 in Model 2), confirming strong error correction dynamics.

This means that around 81–90% of any short-run disequilibrium is corrected within a year, reinforcing the stability of the long-run relationship. Model 1 demonstrates a strong fit with an adjusted R^2 of 0.975, indicating that 97.5% of the variation in stock market capitalisation is explained. The LM (0.176) and White (4.806) test statistics show no issues with serial correlation or heteroskedasticity, confirming its econometric soundness. In contrast, Model 2 has a lower adjusted R^2 of 0.591, suggesting reduced explanatory power due to interaction terms. However, it remains statistically valid, with insignificant LM (0.089) and acceptable White (4.410) test results, indicating no major diagnostic concerns.

DISCUSSIONS

Examining the estimated coefficients, the short-run estimates indicate that globalisation exerts a positive influence on market capitalisation, although it is only statistically significant in Model 2 (10.16). This suggests that in the immediate term, greater global integration can enhance investor confidence and attract capital flows, but only when the model accounts for interaction effects with monetary policy variables. This outcome is consistent with the findings of Onyele and Ikwuagwu (2020), who argued that globalisation can stimulate stock markets in emerging economies when supported by appropriate policy frameworks.

However, it differs from Insaidoo et al. (2024), who observed that financial globalisation shocks tend to destabilise African stock markets. In the long run, globalisation has divergent effects depending on the model specification. In Model 1, the coefficient is significantly negative (–1.580), suggesting that over time, globalisation reduces market capitalisation. This may reflect South Africa's exposure to external shocks, capital outflows, or heightened competition that undermines domestic stock market depth. This finding resonates with Udeaja et al. (2024), who also observed long-run negative globalisation effects in sub-Saharan African markets.

However, in Model 2, globalisation exerts a significantly positive effect (11.33), indicating that when policy interactions are considered, integration into the global economy supports stock market performance. This supports Onyele and Ikwuagwu (2020), who argue that globalisation's benefits depend on domestic monetary and financial policies. The result also revealed that in the short run, money supply is positive and strongly significant across both models (1.016 in Model 1 and 2.977 in Model 2), confirming that increases in liquidity quickly translate into higher stock market capitalisation. This underscores the critical role of

monetary expansion in stimulating investor activity and market growth in the short run. The result corroborates Asiedu et al. (2020), who found that liquidity growth is a key determinant of stock market performance in Africa. In the long run, money supply remains consistently positive and significant in both models (1.249 in Model 1; 3.321 in Model 2), implying that monetary expansion facilitates long-term stock market growth. This is intuitive, as greater liquidity supports financial deepening and capital mobilisation. The result is consistent with Marozva (2020), who emphasised the importance of financial development and monetary growth in sustaining African stock markets.

Furthermore, the effect of interest rate in the short run is shown to be negative but insignificant in both models, suggesting that short-run variations in interest rates do not directly affect stock market capitalisation in South Africa. This implies that investors may respond more to broader financial and macroeconomic conditions than to short-lived changes in borrowing costs. In contrast, Marozva (2020) found significant interest rate effects in South Africa, highlighting that South Africa's stock market may be relatively insulated from immediate monetary tightening. In the long run, the interest rate is negative in both models (–0.173 in Model 1 and –1.440 in Model 2) but statistically insignificant, suggesting that long-run stock market performance is not directly determined by interest rate changes. This stands in contrast to Asiedu et al. (2020, who documented significant long-term negative effects of high interest rates on African economies' stock markets' performance. One possible explanation is that South Africa's stock market adjusts more through exchange rate channels than through interest rate channels.

Moreover, in the short run, the exchange rate is shown to be consistently negative and significant, with coefficients of –1.002 (Model 1) and –0.759 (Model 2), indicating that currency depreciation or volatility reduces market capitalisation in the short run. This reflects the sensitivity of South Africa's stock market to exchange rate fluctuations, likely due to the dominance of foreign portfolio flows. Furthermore, in the long run, the exchange rate maintains its negative and significant effect across both models (–0.710 and –0.847), confirming that long-term currency depreciation undermines investor confidence, reduces foreign participation, and ultimately weakens market capitalisation. This finding aligns with Marozva (2020) and supports the broader literature that exchange rate stability is crucial for stock market development in emerging economies. Interestingly, the result showed that the interaction between globalisation and money supply is negative and significant (–0.458), implying that while monetary expansion alone supports stock markets, its short-run benefits are eroded when combined with higher globalisation. This suggests that global integration can amplify inflationary pressures or encourage capital flight if domestic liquidity growth is excessive, consistent with the cautionary findings of Kose et al. (2009). This could reflect that in the South African context, equity investors respond more to exchange rate movements and liquidity conditions than to short-term interest rate adjustments, since the stock market is relatively open to global portfolio flows that are sensitive to currency risk rather than domestic borrowing costs.

CONCLUSION

This study empirically analysed the impacts of globalisation and monetary policy on stock market performance in South Africa. The short-run estimates indicated that money supply

and globalisation positively influenced stock market capitalisation, while exchange rate volatility exerted a consistently negative effect. Interest rate changes were insignificant in the short run, suggesting that South Africa's stock market is less responsive to immediate monetary tightening. In the long run, money supply remained a key positive driver of stock market performance, while exchange rate depreciation had a persistent negative effect. Globalisation showed mixed effects: negative in the baseline model but strongly positive when interaction with monetary policy was included, highlighting the conditional benefits of global integration.

The globalisation–money supply interaction was, however, negative, implying that excessive liquidity under high globalisation may undermine stock market stability. It can be concluded that globalisation shapes the effectiveness of monetary policy in South Africa by dampening the positive influence of money supply on stock market growth. However, this study is limited by its exclusive focus on South Africa and aggregate stock market capitalisation, which may mask country-specific and sectoral variations in the effects of globalisation and monetary policy. Future studies should incorporate institutional quality indicators, explore sector-specific indices, and conduct comparative analyses across emerging African economies to better capture the heterogeneity and broader regional dynamics.

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