What simple econometric analysis will tell us about the Relationship Between Macroeconomic Variables, Stock Market Indices, and the Activity of the Banking Sector?

Abstract

The main goal of the macroprudential policy is to reduce the systematic risk and the macroeconomic costs of the financial instabilities. After 2008 macroprudential have been developed. We test the role of the banking sector's activity in the strength of the causal relationship between the real sector and the financial system. We examine the strength of the relationship between several macroeconomics variables, such as industrial production, interest rate, stock market values, unemployment rate and particularly the volume of the credit to the non-financial sector. The empirical analyses are performed with reference to three economies: Poland, Germany, the United Kingdom. Substantial diversity of sources of economic growth as well as the size of the financial system in the case of countries in question allows for better understanding of connection the within financial sector and real sector. Moreover, each of them experienced the 2008 crisis in a different way.

Keyword: VAR, IRF, Granger Causality, Business Cycle, Credit Cycle.

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