Author's Accepted Manuscript

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PII: S2110-7017(16)30053-1
DOI: http://dx.doi.org/10.1016/j.inteco.2016.06.003
Reference: INTECO101

To appear in: *International Economics*

Received date: 29 February 2016
Revised date: 3 June 2016
Accepted date: 9 June 2016

Cite this article as: Babajide. Fowowe and Mohammed Shuaibu, Dynami Spillovers between Nigerian, South African and International Equity Markets *International Economics,* http://dx.doi.org/10.1016/j.inteco.2016.06.003

Dynamic Spillovers between Nigerian, South African and International Equity Markets

by

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Abstract

This paper examines the dynamic interdependence and extent of integration between South African, Nigerian and international equity markets. The study made use of a new methodology for computing spillovers within and between markets, which utilizes a generalized VAR framework that produces forecast error variance decompositions and also accounts for correlated shocks using historically observed distribution of the errors. The empirical results revealed that return and volatility spillovers between the Nigerian and South African markets and major international equity markets are substantial when markets from various regions are considered together. For the regional analysis, it was found that the Nigerian and South African markets have greater interdependencies with Asian markets than with European markets. The results also showed that the South African market is more integrated with international markets than the Nigerian market. A crucial finding is that the lowest spillover index recorded was between the Nigerian and South African markets. This does not bode well for African integration and suggests that more efforts need to be channeled towards enhancing financial integration within Africa.