REAL ECONOMIC ACTIVITY AND STATE OF FINANCIAL MARKETS

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Abstract

The study examines the relation between real economic activity and condition of financial markets in Poland in the framework of Consumption Based Capital Asset Pricing Model (CCAPM). The article analyses the relation between yield spreads calculated for Polish debt securities and real economic activity. Since CCAPM is the framework of presented analysis the value of real retail sale is used as a measure of real economic activity (here level of real consumption). Furthermore, since host of researchers apply in their studies the whole spectrum of measures of real economic activity the study is extended to encompass also the supply side of the economy. In this case the value of real industrial production is used as a measure of real economic activity. The outcomes for Polish economy suggest that there is some evidence that financial markets may facilitate to forecast the real economic activity. The conclusions from models evaluated for supply and demand side of economy are coherent.

The study differs from its counterparts in a way that it applies relatively "short" yield spreads placing in this way emphasis mainly on initial "knot points" of the yield curve. Such a solution steams from specific character of Polish financial markets, however, is fully supported by economic framework. In this way the agreement between econometric requirements (stationarity of time series) and economic common sense (interpretation of yield spreads) are reached. The results should be treated with caution due to the short sample, stationarity issues and some evidence of possible instability of parameters. Moreover, the results cannot be fully compared with those studies which as an explanatory variable apply "long" yield spreads (calculated for example between: yields of 10-year bonds and 3-month treasury bills). Although, the research is conducted on monthly time series the results are consistent with quarterly analyses done for other economies.
Key words: CCAPM, economic growth, financial markets, term spreads, expectations.

JEL classification: G12, E43, E44