ABSTRACT

This study examines the issue of integration among BRICS stock markets through contagion and spillover effects during the period 2004–2023. The transmission of shocks between markets is identified by tracing the flow of disturbances from one market to another, measuring the impact resulting from such transmission, and determining the time required for shocks to spread from one country to the next.

This research employs the Vector Autoregression (VAR) method to analyze spillover effects using weekly stock index data from eight BRICS countries: Brazil, Russia, India, China, South Africa, Egypt, Indonesia, and the United Arab Emirates. The data used are inflation-adjusted returns to reflect real market movements. The methods applied include Granger Causality, VAR analysis, Impulse Response Function (IRF), and Variance Decomposition.

The VAR analysis indicates dynamic and reciprocal relationships among the BRICS stock markets. Granger Causality results reveal complex and interdependent causal patterns across several capital markets. The IRF results show that markets begin responding to shocks in the initial period, with effects gradually fading around the sixth to seventh week. Variance Decomposition reveals that in the early stages, market fluctuations are largely driven by domestic shocks. However, over time, the contribution of external shocks from other countries increases significantly. These three analyses collectively demonstrate the existence of stock market integration among BRICS countries, which facilitates spillover effects when disturbances occur in one market.

Keywords: Capital Market Integration, VAR, Contagion Effect, Spillover Effect