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# Does Having More Economic Freedom Drive the Capital Markets? Evidence from BRICS-T Nations

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**ABSTRACT**

This study investigates the predictive relationship between economic freedom and stock prices in BRICS-T economies (Brazil, Russia, India, China, South Africa, and Türkiye) over the period 1998-2023. Using the Kónya (2006) panel causality test and its time-varying extension of Yilanci and Ozgur (2019), the analysis accommodates cross-sectional dependence, country-specific heterogeneity, and structural change. Given the limitations of a bivariate framework, the results should be interpreted as capturing predictive Granger causality rather than structural causation; observed co-movements may also reflect joint responses to common underlying shocks. The standard causality test identifies a statistically significant causal relationship running from economic freedom to stock prices only for India across the full sample. The time-varying analysis reveals a richer and more nuanced picture: while India exhibits persistent predictive causality consistent with the standard test, Türkiye, Brazil, South Africa, and Russia display episodic predictive causality concentrated during periods of institutional stress, political upheaval, or crisis, whereas China shows only an isolated signal rather than a stable or systematic relationship. These findings suggest that institutional signals are priced primarily during periods of heightened uncertainty, whereas other macroeconomic forces largely obscure their influence during stable periods. The apparent contradiction between the standard and time-varying results reflects the difference between estimating average full-sample effects and capturing regime-dependent, episodic dynamics. The policy implications are specific to the episodic nature of the findings: maintaining institutional credibility during crises may be as consequential

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as the general level of economic freedom during stable periods. Future research should incorporate higher-frequency data, disaggregated institutional indicators, and control variables to distinguish institutional effects from common shocks further.

**Keywords:** Economic Freedom, Stock Prices, BRICS-T, Kónya Causality Test, Time-Varying Causality, Institutional Quality

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