

## **The Impact of Oil Prices on the Exchange Rate in South Africa**

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**ABSTRACT** The aim of this paper was to investigate the impact of oil prices on the nominal exchange rate. The Generalized Autoregressive Conditional Heteroscedasticity (GARCH) test was performed to determine the impact of oil prices on nominal exchange rate using monthly time series data covering the period between 1994 and 2012. The results show that oil prices have a significant impact on nominal exchange rates. In addition, the findings reveal that an increase in oil prices leads to a depreciation of the rand exchange rate. This implies that oil prices are a very important variable in determining the strength of the currency and its volatility. The South African government should consider the impacts of oil prices when formulating and implementing economic policies especially the exchange rate policies.