Assessing the Influence of Monetary Policy on Entrepreneurial Intentions in South Africa

This study addresses the critical gap in empirical evidence regarding how monetary policy in South Africa influences entrepreneurial intentions. While entrepreneurship is recognised as a vital engine for job creation and economic growth, intended to provide nearly 90% of new jobs by 2030, its sensitivity to macroeconomic financial conditions remains under-researched. The research employed a time-series analysis using annual data from 1990 to 2024 to investigate the relationship between entrepreneurial intentions and the broader financial environment. Distinct from traditional studies that rely solely on interest rates, this study utilised a Financial Conditions Index (FCI) as a proxy for monetary policy, incorporating exchange rate volatility, equity prices, and credit spreads. The theoretical framework synthesised the theory of planned behaviour with the Interest Rate and Credit Channel theories of monetary transmission. Empirical results from a short-run Autoregressive distributed lag (ARDL) model indicate that the FCI has a statistically significant influence on entrepreneurial intentions at the 5% level. Conversely, GDP growth as a macroeconomic indicator did not show significant direct effects in this specific model, suggesting that financial accessibility acts as the primary gatekeeper for nascent entrepreneurs. The findings align with the theory of planned behaviour, suggesting that restrictive monetary policy (high FCI) diminishes perceived behavioural control and extinguishes entrepreneurial intentions before they reach the operational stage. The primary implication for South African policymakers is that financial market stability is the most effective short-term lever for boosting entrepreneurial spirit. The significant and positive impact of FCI on EI indicates that, interventions that lower the cost of borrowing or expand credit guarantees are likely to yield immediate results in increasing the pool of potential entrepreneurs.

Keywords: *Entrepreneurial Intentions; Monetary Policy Conduct; Time Series Analysis; Financial Conditions Index; Macroeconomic*

Introduction

Globally, entrepreneurship is regarded as the primary engine for innovation, job creation, and sustainable economic growth (Herrington and Kew, 2022). With the national unemployment rate persistently hovering above 30% and the formal sector struggling to absorb a burgeoning labour force, the National Development Plan (NDP) 2030 envisions that small and medium enterprises (SMEs) will provide nearly 90% of new employment opportunities (National Planning Commission (NPC), 2012).

However, the transition from entrepreneurial desire to actual venture creation is heavily moderated by the macroeconomic environment (Gil-Soto et al., 2024). Despite the theoretical importance of financial conditions in shaping the business landscape, there remains a striking lack of empirical evidence regarding how the conduct of monetary policy in South Africa directly influences entrepreneurial

intentions. While existing literature has extensively covered the roles of fiscal policy, regulatory burdens, and institutional quality (Malebana, 2017; Urban and Naidoo, 2012), the sensitivity of nascent entrepreneurs to shifting monetary conditions remains under-researched. This study addresses this critical gap by investigating whether the broader financial climate proxied by a Financial Conditions Index (FCI) acts as either a catalyst or a deterrent for those intending to start new businesses.

Further, it is generally agreed that, the decision to engage in entrepreneurship does not occur in a vacuum but it is a cognitive process shaped by the perceived feasibility and desirability of the process and objectives of entrepreneurs. According to the Theory of Planned Behaviour, intentions are the single most reliable predictor of subsequent behaviour (Ajzen, 1991). In the context of South Africa, the intention-to-action gap is particularly wide, often due to the volatility of the financial environment (Mpanda and Gorjão 2025). Traditionally, the South African Reserve Bank (SARB) manages the economy through an inflation-targeting framework, using the repo rate as its primary tool (Maduku and Kaseeram 2018; Mboweni, 2023). However, the impact of monetary policy on the real economy and specifically on the pre-startup phase of business is more complex than interest rates alone suggest. A singular focus on interest rates ignores the roles of exchange rate volatility, equity prices, and credit spreads among other things, all of which aggregate to form the partial financial pressure felt by a potential entrepreneur (Gumata et al., 2012; Kabundi and Mbelu 2021).

We argue in this paper that, by using the financial conditions index (FCI) as a proxy for monetary policy, this research offers a more indicative measure of the financial atmosphere than traditional metrics like interest rates and inflation dyanamics. To add, the FCI captures the holistic tightness or looseness of the economy with a restrictive FCI (higher value) typically signalling higher borrowing costs, reduced liquidity, and a general climate of risk aversion among financial institutions (Kabundi and Mbelu, 2021). For an individual with the intention of starting a business, such conditions represent significant barriers to entry, often leading to the abandonment of entrepreneurial plans before they reach the operational stage. Conversely, an accommodative policy (low FCI values) should, in theory, lower the threshold for entry by improving access to credit and fostering an optimistic economic outlook. Despite the above, the empirical confirmation of these relationships within the South African time-series context has remained elusive, with most studies focusing on the impact of monetary policy on established firms rather than the intentions of prospective entrepreneurs (Amoateng and Dludla, 2020).

This study employs time-series analysis to assess the long-term relationship between these monetary conditions and entrepreneurial intentions. The novelty of this approach is twofold. First, it moves beyond the static, cross-sectional surveys commonly found in entrepreneurship research such as those utilised by the Global Entrepreneurship Monitor (GEM) by analysing how intentions fluctuate over time. Second, it introduces the FCI into the entrepreneurship discourse, providing a more robust reflection of the SARB's policy impact on the private sector. The significance of this research lies in its potential to bridge the divide between macro-level policy

conduct and micro-level behavioural intent. If monetary policy is shown to significantly dictate the volume of entrepreneurial intentions, then the SARB and the Department of Trade, Industry and Competition (DTIC) may need to consider aligning their objectives more closely to ensure that price stability does not come at the expense of industrial dynamism (Smit and Grobler, 2021).

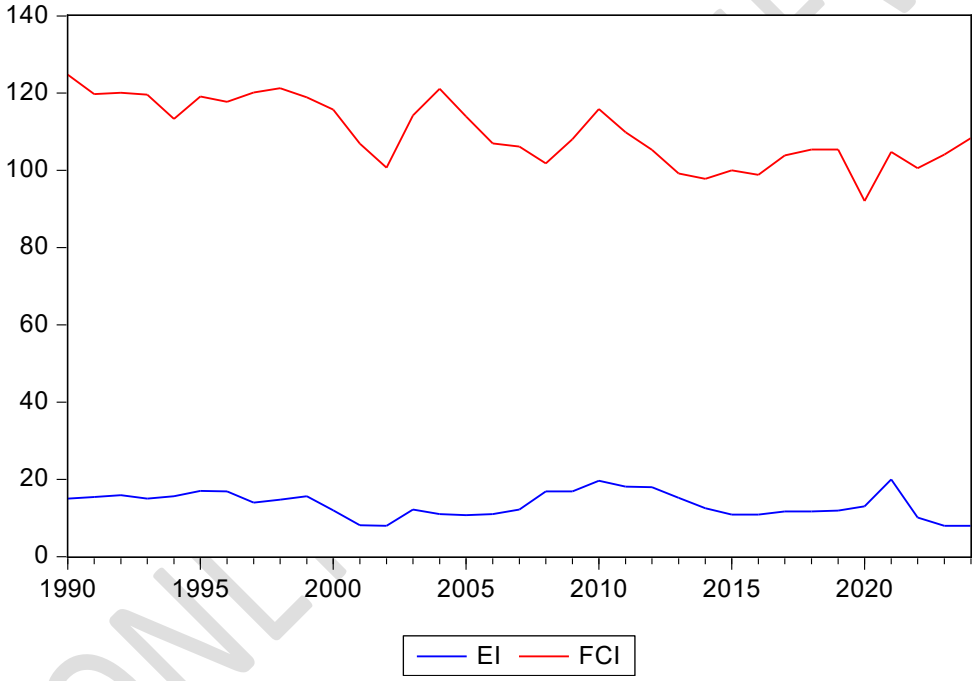
The usefulness of this research extends to several key stakeholders. For government and policymakers, it provides a data-driven basis for designing entrepreneurship-friendly monetary interventions that do not compromise price stability but do support SME viability. For academics and students, it introduces a framework for studying the intersection of macroeconomics and behavioural entrepreneurship. For the entrepreneurs themselves, a clearer understanding of how macroeconomic cycles affect credit accessibility can lead to more informed strategic planning (Fatoki, 2014). Ultimately, as South Africa grapples with stagnant GDP growth and structural inequalities, understanding the levers that suppress or stimulate the startup pipeline is essential. By identifying how financial conditions influence the very first step of the entrepreneurial process the intention this study provides actionable insights into how South Africa can better foster a resilient and dynamic SME sector.

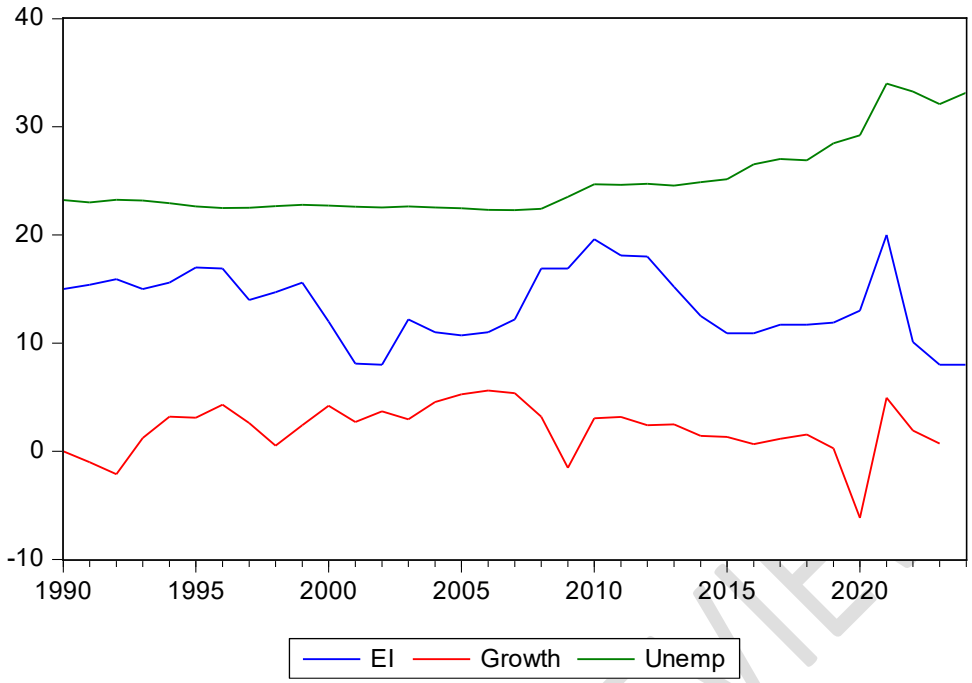
Entrepreneurial intensions in South Africa

Entrepreneurial Intention (EI) is conceptualised as an individual's conscious conviction and deliberate plan to establish a new business venture in the future (Ndovela and Chinyamurindi, 2021). Grounded largely in the theory of planned behaviour, EI represents a psychological state that directs attention and effort toward a specific goal, acting as the most immediate and reliable predictor of actual entrepreneurial behaviour (Ajzen, 1991; Brenner, 2024). EI is viewed as a form of planned behaviour where the decision to start a business is not a random occurrence, but a calculated career choice shaped by personal perceptions, macroeconomic and environmental circumstances (Dzomonda et al., 2015; Mhlongo et al., 2025).

To add, the factors influencing these intentions are multifaceted, ranging from internal psychological drivers to external macroeconomic conditions. At the core are the psychological antecedents defined by Ajzen (1991) such as the attitude toward entrepreneurship, social pressure from family and peers, and perceived behavioural control or self-efficacy. These are further influenced by an individual's perception of the institutional environment, where regulatory clarity and political stability can either foster or hinder the desire to innovate (Urban, 2013; Garcia-Cabrera et al., 2018). Furthermore, macroeconomic factors play a significant role, for instance, monetary policy and the resulting liquidity within the banking sector directly impact the financial stability of potential SMEs, thereby affecting an individual's intention to enter the market (Antoniuk and Marych, 2025; Amoateng and Dludla, 2020). On the other hand, demographic variables such as race, gender, and the presence of entrepreneurial role models also serve as foundational predictors of whether an individual views entrepreneurship as a feasible career path (Farrington et al., 2012; Malebana, 2016).

Moreover, there are also enabling factors that encourage high levels of entrepreneurial intention including targeted education, emotional drivers, and systemic support. In addition, entrepreneurship education is a primary catalyst, as it provides the technical skills and psychological confidence required to transition from intention to action (Bux and Van Vuuren, 2019; Mhlongo et al., 2025). This is often augmented by entrepreneurial passion, which provides the emotional resilience needed to pursue high-risk ventures (Mhlongo et al., 2025). Systemic enablers such as access to finance, credit guarantee schemes, and knowledge of available support structures like business incubators significantly lower the perceived barriers to entry (Cusmano, 2018; Malebana, 2017). Finally, a supportive local ecosystem and favourable financial conditions, characterised by credit accessibility, empower individuals to realise their entrepreneurial goals, even within challenging economic landscapes (Boucher et al., 2024; Felicia and Ogunbiyi, 2025).





The rest of the paper is organised as follows: the subsequent section covers the theoretical literature section followed by discussion of previous studies in the empirical literature section. After the empirical literature, the study discusses methodological issues with the succeeding section being results presentation and discussion. Lastly the paper concludes and presents policy recommendations and study limitations.

Literature review

Theoretical literature

The theoretical relationship between monetary policy conduct and entrepreneurial intentions in South Africa is best understood as a dialogue between macroeconomic signals and microeconomic cognitive processes. This section of the paper synthesises the psychological foundations of intent with the structural mechanisms of financial transmission, supported by empirical observations from both local and international scholarship.

Theory of planned behaviour

At the heart of the discussion is the theory of planned behaviour (TPB), which posits that entrepreneurial action is preceded by a conscious intent (Ajzen, 1991). However, as Malebana (2017), observes in the South African context, the transition from desiring a business to intending to start one is heavily contingent on perceived behavioural control (PBC). Monetary policy conduct serves as a primary external

determinant of this control. When the South African Reserve Bank (SARB) adopts a restrictive stance reflected in a high financial conditions index (FCI) the perceived ease of business entry diminishes. We argue is this paper that when ease of doing business is perceived to be high, that may also translate to lower or diminishing intentions of entrepreneurs to implement their business ideas.

Empirical studies by Urban and Naidoo (2012) highlight that South African nascent entrepreneurs are highly sensitive to environmental munificence. If the financial environment is perceived as hostile due to tight liquidity, the individual's PBC weakens, leading to a downward revision of entrepreneurial intentions. Thus, the FCI does not merely change numbers on a spreadsheet but it alters the psychological feasibility of entrepreneurship for the average citizen

The interest rate channel

The most direct link in this discussion is the Interest Rate Channel. Within the Keynesian framework, monetary policy influences the real economy by altering the cost of capital. For an entrepreneur, the interest rate represents the hurdle rate for any new venture. According to the classical theory of investment, a project is only viable if its expected marginal efficiency of capital exceeds the interest rate.

In South Africa, Fatoki (2014) argues that high interest rates act as a significant deterrent to opportunity-motivated entrepreneurs who may opt for the safety of formal employment rather than incurring high-cost debt. Furthermore, because South Africa has a high proportion of necessity-motivated entrepreneurs, a restrictive monetary policy can be devastating. These individuals often lack the personal equity to bootstrap their ventures, making their entrepreneurial intentions almost entirely dependent on the cost of external borrowing (Amoateng and Dludla, 2020).

The credit channel and financial accelerator

The discussion must move beyond the cost of money to the availability of money. The credit channel theory suggests that monetary policy affects the supply of loans through the bank lending channel and the balance sheet channel. Bernanke and Gertler’s (1989) financial accelerator theory is particularly relevant here; it suggests that during a monetary tightening, the net worth of borrowers declines, increasing the external finance premium.

In the South African landscape, where SMEs often face a credit gap, Gumata et al. (2012) found that a tightening of financial conditions leads to immediate risk-aversion among commercial banks. This creates a credit crunch that disproportionately affects those with low collateral. Consequently, even if a potential entrepreneur is willing to pay a higher interest rate, the mere unavailability of credit captured by a high FCI extinguishes the intention to start a business. This confirms that the FCI is a more potent predictor of intentions than the repo rate alone, as it accounts for the credit spreads that define the reality of South African lending.

Risk and Delay: Real Options and Expectations

Finally, the expectations channel and real options theory provide a temporal dimension to the discussion. Entrepreneurship is a forward-looking commitment. According to real options theory, when macroeconomic uncertainty is high often a byproduct of volatile monetary policy or exchange rate fluctuations there is a value in waiting.

Kabundi and Mbelu (2021) note that in emerging markets like South Africa, the SARB's policy signals are closely watched. If the conduct is perceived as hawkish (restrictive), it signals a potential cooling of the economy. Potential entrepreneurs may maintain a positive attitude toward business but choose to defer their intentions until the cycle turns. This wait-and-see approach, triggered by restrictive financial conditions, can lead to a significant slump in new business registrations, further stifling the economic growth the policy was originally intended to stabilise.

The consensus among these theories and studies is that monetary policy conduct acts as a filter for entrepreneurial talent. While the theory of planned behaviour explains the internal motivation, the interest rate and credit channels represent the external reality of the South African economy. By using a financial conditions index, this study acknowledges that the entrepreneurial path is not just blocked by high rates, but by a complex web of credit constraints, exchange rate risks, and market expectations that collectively shape the intentionality of South Africa's next generation of business owners.

Empirical literature

Global studies

The relationship between monetary policy conduct and entrepreneurial intentions is a complex interaction of macroeconomic stability, credit accessibility, and individual perception. Global empirical evidence suggests that central bank interventions do not merely affect large-scale financial aggregates but fundamentally alter the desirability and feasibility of starting new ventures. By manipulating interest rates and money supply, monetary authorities create the structural boundaries within which potential entrepreneurs evaluate the risks and rewards of market entry.

A primary channel through which monetary policy influences entrepreneurial intention is the availability of credit. Umeaduma (2024) posits that in developing economies, the impact of monetary policy on small business lending and interest rates is a direct determinant of employment growth and the survival of new firms. When monetary policy is restrictive, the resulting high interest rates act as significant stumbling blocks that diminish the perceived feasibility of a venture. In Nigeria, the government's fiscal and monetary framework has historically presented challenges for entrepreneurship due to a lack of a stable capital base for banks, which restricts the credit available to prospective business owners. This credit constraint is further localised in studies by Felicia and Ogunbiyi (2025), who found that in Obio-Akpor, Rivers State, the growth of SMEs is inextricably linked to

government monetary policy and its direct effect on credit accessibility. For an entrepreneur, the intention to start a business is often predicated on the ease of accessing finance, a factor that Vasilescu (2014) identifies as a key driver for innovative SMEs within the European Union. Without a supportive monetary environment, even the most innovative ideas may fail to transition from intention to action.

It is further argued in literature that, monetary policy does not affect all players equally. Caglio, Darst, and Kalemli-Özcan (2021) demonstrate that collateral heterogeneity creates a gap in how monetary policy is transmitted to SMEs versus large firms. As a result of SMEs often lacking high quality collateral required by commercial banks during periods of policy tightening, they face much steeper financing constraints. These constraints directly stifle entrepreneurial intentions by increasing the sovereign stress felt by small-scale innovators. To mitigate these gaps, Cusmano (2018) emphasises the role of credit guarantee schemes and mutual guarantee societies. These institutional supports act as a buffer, translating the broader goals of monetary policy into tangible financial support for entrepreneurs who would otherwise be marginalised by traditional banking activities. The effectiveness of these structural monetary policies is crucial in ensuring that financing constraints do not become an insurmountable barrier to entry.

Beyond the mechanical flow of money, monetary policy shapes the institutional environment, which Urban (2013) and Li (2021) identify as a critical influence on entrepreneurial start-ups. In emerging economies like Iran, contextual factors including the stability of the macroeconomic environment are primary drivers of the intention to enter the manufacturing sector. If the monetary conduct is perceived as erratic, it damages the entrepreneurial motivation of individuals. In transition economies, the shift to a market system requires policy options that foster entrepreneurship through systemic stability. For example, in Romania, the country's entrepreneurial environment predictors for starting a new venture are heavily tied to the desirability and feasibility afforded by the macroeconomic policy. Similarly, in Southeast European countries, entrepreneurial intentions are bolstered when the policy environment provides a clear path for innovation and liquidity.

Lastly, recent literature has expanded to include the impact of policy on specific types of entrepreneurship. Al-Mamary (2025), notes that factors shaping green entrepreneurial intentions are increasingly tied to an integrated model of innovation and policy support. Furthermore, the long-term growth of SMEs in developed regions like the United States is shown to be sensitive to the dual effects of monetary and fiscal policies. Antoniuk and Marych (2025) conclude that the impact of macroeconomic policy on the liquidity and financial stability of SMEs is best viewed through the prism of banking activities, where the conduct of the central bank dictates the overall health of the entrepreneurial ecosystem.

South African studies

The phenomena of entrepreneurial intention in South Africa is a multidimensional process driven by a combination of personal psychology,

educational intervention, and the surrounding socio-economic environment. At the centre of this development is the theory of planned behaviour, where an individual's attitude toward entrepreneurship, perceived behavioural control, and subjective norms, the social pressure from family and peers, act as the primary engines of intent (Nsahlai, et al, 2020; Maziriri and Nzewi, 2019). For many South Africans, these intentions are deeply rooted in specific psychological traits, such as a high need for achievement and a propensity for risk-taking (Dzomonda, Fatoki, and Oni, 2015). Furthermore, the presence of entrepreneurial role models serves as a critical psychological catalyst, providing a relatable blueprint for success that elevates an individual's own aspirations (Malebana, 2016). When comparing business students in developing countries, research highlights that South Africans often demonstrate a robust inherent drive to pursue self-employment, sometimes even surpassing counterparts in nations like Poland (Nieuwenhuizen and Swanepoel, 2015).

Further, there is evidence that education and institutional support systems play a pivotal role in transitioning psychological leanings into concrete career goals. There is evidence in literature that has indicated that targeted entrepreneurship education programs are effective at increasing a student's self-efficacy and their overall belief in their ability to launch a venture (Bux and Van Vuuren, 2019). Within the university ecosystem, the perceived availability of institutional support and a positive academic curriculum are essential for fostering a pro-entrepreneurial mindset (Nsahlai et al., 2020; Maziriri et al., 2019). This influence extends to the professional and academic workforce; for instance, the level of academic entrepreneurship in South Africa is dictated by how researchers and staff perceive the desirability and feasibility of commercialising their intellectual property (Urban and Chantson, 2019). However, South Africa continues to suffer from a persistent challenge of intention to action gap, where high levels of expressed intent do not always translate into actual business startups due to various personal and environmental hurdles (Roos and Botha, 2022).

The broader contextual and structural landscape of South Africa further dictates whether these intentions can be sustained or stifled. In rural provinces, a significant determinant of intention is the individual's level of knowledge regarding government and institutional support programs. Consequently, a lack of information often serves as a primary barrier to entry in these underserved areas (Malebana, 2017). However, on a regional level, such as in Nelson Mandela Bay in South Africa, the maturity of the entrepreneurial ecosystem and a local culture that celebrates innovation are vital for nurturing business intent (Boucher, Cullen, and Calitz, 2024). Furthermore, demographic variables, including gender and family business background, continue to provide diverse perspectives on how different groups of South African students approach the idea of business ownership (Farrington, Venter, and Louw, 2012).

Finally, organisational and macro-level factors contribute to the decision to pursue entrepreneurship. For those currently employed, perceptions of organisational justice and how fairly they feel treated by their employers can influence their push towards starting their own ventures as a form of employee entrepreneurial intention (Urban and Moloi, 2022). This is complemented by the national regulatory environment and public policy, which act as the overarching

framework that either facilitates or hinders the ease of doing business across different countries (Ghosh, 2017). Collectively, these studies highlight that while South Africans possess a strong psychological foundation for entrepreneurship (Dzomonda et al., 2015; Nieuwenhuizen and Swanepoel, 2015; Malebana, 2016), the realisation of this potential depends heavily on improving access to information (Malebana, 2017), fostering supportive ecosystems (Boucher et al., 2024), and bridging the gap between intending to start a business and taking the first step toward action (Roos and Botha, 2022).

Methodology

To empirically assess the influence of monetary policy conduct on entrepreneurial intentions in South Africa, this study adopted a quantitative research design utilising time series analysis. The methodology was structured to evaluate how broad financial conditions, rather than isolated interest rates, dictate the "pre-startup" phase of business activity.

Data sources and sample period

The study utilised annual time-series data spanning 35 years from 1990 to 2024. This timeframe allows for the observation of various monetary policy cycles and their subsequent impact on the entrepreneurial landscape in South Africa. The final dataset comprised 24 observations after adjustments for time-series consistency.

Variable selection and justification

The research incorporated five primary variables to capture the interplay between the financial environment and entrepreneurial behaviour in South Africa:

Entrepreneurial Intentions (EI): Serving as the dependent variable, EI represents the conscious state of mind that precedes venture creation.

Financial Conditions Index (FCI): Used as the primary independent variable and a proxy for monetary policy conduct. Unlike the repo rate, the FCI provides a holistic measure by aggregating exchange rate volatility, equity prices, and credit spreads.

Economic Growth (GROWTH): Included as a control variable to account for general macroeconomic performance.

Unemployment Rate (UNEMP): Included as a control variable to account for the labour market conditions that often drive necessity-motivated entrepreneurship in South Africa.

Rule of Law (ROL): Included as a control variable to account for institutional strength in South Africa.

Model specification

The study examines the determinants of Entrepreneurial Intentions (EI) using Financial Conditions Index (FCI), Rule of Law (ROL), Economic Growth (GROWTH), and Unemployment (UNEMP). Given the mix of I(0) and I(1) variables identified in our unit root tests, the model is specified as an ARDL(p, q_1, q_2, q_3, q_4) process:

$$EI_t = c + \delta t + \sum_{i=1}^{p} \gamma_i EI_{t-i} + \sum_{j=0}^{q_1} \beta_{1j}\, FCI_{t-j} + \sum_{j=0}^{q_2} \beta_{2j}\, Growth_{t-j} + \sum_{j=0}^{q_3} \beta_{3j}\, Unemp_{t-j} + \sum_{j=0}^{q_4} \beta_{4j}\, ROL + \epsilon_t$$

Where:

c is the constant (intercept) and δt represents the deterministic trend.

p and q represent the optimal lag lengths for the dependent and independent variables, respectively.

ϵ_t is the white noise error term.

Diagnostic testing framework

To ensure the robustness and validity of the statistical inferences, the Breusch-Godfrey Serial Correlation LM Test was performed to determine if the residuals were influenced by their own past values, which is a common concern in time-series data.

Results presentation and discussion

This section of the study will focus on the presentation, interpretation and discussion of the study's findings. The study will begin with descriptive statistics before interpreting the bounds test results followed by the main findings of the study. After the findings of the study, the author will interpret the diagnostic statistics to ensure that trustworthiness of the findings.

Table 1. *Descriptive statistics*

	EI	FCI	GROWTH	UNEMP	ROL
Mean	13.42143	108.7119	2.640293	24.86111	54.91687
Median	12.20000	106.5220	2.650000	23.15700	55.11194
Maximum	20.00000	121.2550	5.603806	34.00700	62.50000
Minimum	8.000000	97.80801	-1.538089	22.28700	46.19048
Std. Dev.	3.482055	7.613619	1.744705	3.382401	3.275444
Skewness	0.269490	0.322598	-0.187450	1.588955	-0.664817
Kurtosis	2.031473	1.738353	2.638442	4.509464	4.381824
Jarque-Bera	1.433301	2.342703	0.316487	14.44052	4.290254
Probability	0.488385	0.309948	0.853642	0.000732	0.117053
Sum	375.8000	3043.934	73.92819	696.1110	1537.672
Sum Sq. Dev.	327.3671	1565.114	82.18789	308.8972	289.6704
Observations	28	28	28	28	28

Source: Author own calculation

The descriptive statistics table provides a comprehensive overview of the distributional characteristics of the variables entrepreneurial intentions (EI), financial conditions index (FCI), economic growth (Growth), unemployment (Unemp), and rule of law (ROL) across 28 observations. The mean value for EI is 13.42, with a relatively low standard deviation of 3.48, suggesting that entrepreneurial intentions remain stable around the average. In contrast, FCI shows a much higher mean of 108.71 and greater volatility, indicated by a standard deviation of 7.61. On the other hand, growth and Unemp reflect the broader economic climate, with average growth at 2.64% and a high average unemployment rate of 24.86%, which peaks at a maximum of 34%. The ROL variable, representing institutional quality, maintains a mean of 54.92 with a maximum of 62.50, reflecting the institutional framework within which these intentions are formed.

Regarding the normality of the data, the Jarque-Bera test results indicate that most variables are normally distributed, as their probability values are greater than the 0.05 significance level. Specifically, EI ($p = 0.488$), FCI ($p = 0.309$), Growth ($p = 0.853$), and ROL ($p = 0.117$) all follow a normal distribution. However, Unemp is a notable exception with a low Jarque-Bera probability ($p = 0.0007$) and high kurtosis (4.50) indicate a non-normal distribution, characterised by a significant rightward skew (1.58). This suggests that the South African labour market has experienced extreme fluctuations or shocks that deviate significantly from a standard bell curve. Overall, the low skewness and kurtosis values for the remaining variables suggest a relatively symmetrical distribution, providing a reliable foundation for estimating an ARDL model.

Table 2. *Unit root tests*

variable	ADF test	I (0)	I(1)
EI	Intercept	0.1105	0.0021
	Trend and Intercept	0.2210	
FCI	Intercept Trend and intercept	0.0027 0.0175	
Growth	Intercept Trend and intercept	0.0027 0.0124	
Unemp	Intercept Trend and intercept	0.9950 1.0000	0.0000
OL	Intercept Trend and intercept	0.1071 0.2446	0.0000

Source: *Author own calculation*

The unit root testing results indicate a combination of I(0) and I(1) variables, which is a common scenario in macroeconomic modelling. For the variables FCI (Financial Conditions Index) and Growth, the null hypothesis of a unit root is rejected at the level form since their p-values (0.0027) are well below the 5% significance threshold. This suggests that both variables are stationary at levels, meaning they do not follow a random walk and tend to revert to their mean over time. Interestingly, for Growth, the p-value remains significant (0.0124) even when a trend and intercept are included, reinforcing its status as a stable, mean-reverting process that can be used in our estimation without any transformation. On the other hand, the variables EI, Unemp (Unemployment), and ROL are found to be non-stationary at levels. For instance, Unemp shows a very high p-value (0.9950), indicating a strong presence of a unit root. However, upon taking the first difference, all three variables, EI (0.0021), Unemp (0.0000), and ROL (0.0000), yield p-values significantly lower than 0.05. This confirms that they are integrated of order one or I(1). Since we have a mix of stationary (I(0) and non-stationary I(1) data, a standard OLS regression in levels would be inappropriate. The most robust statistical approach for this specific dataset would be the Autoregressive Distributed Lag (ARDL) Bounds Testing approach, as it is uniquely designed to handle variables with differing levels of integration.

Table 3. *Bounds testing results*

Null Hypothesis: No long-run relationships exist

Test Statistic	Value	k
F-statistic	1.361175	4

Critical Value Bounds

Significance	I0 Bound	I1 Bound
10%	1.9	3.01
5%	2.26	3.48
2.5%	2.62	3.9
1%	3.07	4.44

Source: Author own calculation

The ARDL bounds test results above indicate that there is no long-run equilibrium relationship between the variables included in the model. The calculated F-statistic of 1.361175 is significantly lower than the Lower Bound I(0) with critical values of 2.26 at the 5% significance level. In fact, it remains below the 10% lower bound of 1.9, which provides strong evidence that we cannot reject the null hypothesis of no long-run relationship. This suggests that our variables do not move together in a stable, synchronised way over time, and any changes in one variable do not result in a predictable, permanent adjustment in the others.

Since we could not find any cointegration amongst the variables this does not permit us to interpret any long-run coefficients or estimating an Error Correction Model (ECM), as the error correction mechanism requires a long-term anchor that doesn't exist in our case. As a result, our analysis will now then focus exclusively on short-run dynamics. This means we should re-estimate the model in a short-run ARDL format.

Presentation of ARDL estimation (Results)

Table 4. *ARDL (2,3,0,2,2) model*

Variable	Coefficient	Std. Error	t- Statistics	Prob
EI(-2)	0.3829	0.3007	1.2733	0.2348
FCI (-2)	0.3301	0.1319	-2.2681	0.0495
ROL (-3)	−0.6305	0.1932	-3.2631	0.0098
Growth	−0.7094	0.4054	-1.7501	0.1140
UNEMP (-2)	−2.9302	1.2156	-2.4105	0.0392

Source: Author own calculation

The ARDL short-run results for South Africa indicate that the model is statistically robust, explaining approximately 74% (see appendix) of the variation in entrepreneurial intentions (EI). Also, the overall model is significant at 1% level with a Prob(F-statistic) of 0.006, and the positive, significant coefficient for the trend variable (0.8489, p = 0.018) suggests a steady upward trajectory for entrepreneurial intentions over time that is independent of other economic factors. Notably, the Financial Conditions Index (FCI) serves as a primary driver, with its current-period coefficient showing a significant positive impact (0.4278, p = 0.017), implying that improved access to finance immediately boosts entrepreneurial drive.

The impact of the other macroeconomic variables reveals a more complex dynamic in the South African context. Unemployment (UNEMP) exhibits a significant negative impact at the second lag (-2.930, p = 0.039), suggesting that prolonged labour market distress eventually discourages individuals from pursuing entrepreneurial ventures. This reflects a discouraged worker effect rather than necessity entrepreneurship, implying that in South Africa, persistent unemployment may erode the personal savings and social capital required to start a business. Similarly, the rule of law (ROL) shows a significant negative effect at the third lag (-0.630, p = 0.009), which may reflect delayed institutional or regulatory hurdles that dampen intentions. Conversely, Economic Growth does not appear to have a statistically significant short-run impact on intentions in this specific model.

Implications of findings

The primary implication for South African policymakers is that financial market stability is the most effective short-term lever for boosting entrepreneurial spirit. The significant and positive impact of FCI or EI indicates that, interventions that lower the cost of borrowing or expand credit guarantees are likely to yield immediate results in increasing the pool of potential entrepreneurs. This is supported by the Global Entrepreneurship Monitor (GEM) reports for South Africa, which consistently identify financial support as a critical pillar where the country often underperforms compared to its peers.

The negative lag in unemployment suggests an uncomfortable effect on the economy. In South Africa's high-unemployment environment, a rise in jobless numbers doesn't immediately push people into business which is often called necessity entrepreneurship. We found in our results that after about two periods, it appears to drain the economy of the vitality needed to even intend to start a business. This indicates that entrepreneurship in South Africa might be opportunity-led rather than poverty-led, requiring a baseline of economic stability to flourish. Furthermore, the lack of long-run cointegration shown in the Bounds Test (F-stat = 1.361) suggests that these intentions are highly volatile and sensitive to shocks. Without a stable long-run relationship, any policy gains in fostering entrepreneurship may be transitory unless structural issues like the institutions (ROL) and long-term unemployment are addressed at their roots.

Table 5. *Diagnostics tests*

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	2.937427	Prob. F(2,7)	0.1185
Obs*R-squared	10.95131	Prob. Chi-Square(2)	0.0042

Source: Author own calculation

The Breusch-Godfrey LM test results are somewhat mixed but lean toward a warning. However, the F-statistic p-value (0.1185) suggests no serial correlation at the 5% level an indication that our model is robust and its results can be trusted.

Concluding remarks

The primary objective of this study was to examine the critical influence of monetary policy conduct on entrepreneurial intentions within the South African context. By utilising a financial conditions index (FCI) as a comprehensive proxy incorporating exchange rate volatility, equity prices, and credit spreads, the research successfully demonstrated that financial accessibility serves as the primary gatekeeper for nascent entrepreneurs. The study contributes to the field by moving beyond traditional interest-rate only metrics and shifting the focus from established firms to the pre-startup phase of business activity. Through a short-run ARDL model, the research achieved a robust explanation of approximately 74% (see appendix) of the variation in entrepreneurial intentions, highlighting that while South Africans possess a strong inherent drive for self-employment, the realisation of this potential is heavily moderated by the holistic tightness or looseness of the financial environment.

Theoretically, the findings synthesise the theory of planned behaviour with the interest rate and credit channel theories of monetary transmission. The results imply that restrictive monetary policy (a high FCI) diminishes an individual's perceived behavioural control, effectively extinguishing entrepreneurial intentions before they reach the operational stage. Furthermore, the significant negative impact of lagged unemployment suggests a discouraged worker effect rather than necessity-driven entrepreneurship. That is an indication that persistent labour market distress erodes the personal savings and social capital required to initiate a business. Also, the lack of long-run cointegration underscores that these intentions are highly volatile and sensitive to immediate shocks, suggesting that any gains in fostering entrepreneurship may be transitory without a stable, synchronised macroeconomic anchor.

Based on these results, the primary policy implication is that financial market stability is the most effective short-term lever for boosting the South African entrepreneurial spirit. Policymakers at the South African reserve bank (SARB) and the department of trade, industry and competition (DTIC) should prioritise interventions that lower the cost of borrowing and expand credit guarantees, as these

are likely to yield immediate increases in the pool of potential entrepreneurs. Additionally, because entrepreneurship in South Africa appears to be opportunity-led and requires a baseline of economic stability, the government must address structural issues such as long-term unemployment and institutional quality (Rule of Law) to ensure that the transition from intention to action is not stifled by a hostile financial atmosphere

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