

***COMPARATIVE ANALYSIS OF INTEREST RATE ON
MANUFACTURING OUTPUT IN WEST AFRICA***

A PAPER PRESENTED BY

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INTRODUCTION

- The problem of underdevelopment resulting from poor utilisation of rich natural resources that are in large supply in West Africa have called for policy initiatives to improve the economy.
- These countries however are all endowed with rich and many natural resources that when harnessed can turn the economies into part of the developed economies of the world. These is what we can see in the economies of China, Korea, Malaysia and other Ancient Tigers.

INTRODUCTION (CONTINUED)

- Studies have shown that developing nations are getting transformed into developed ones through the growth of manufacturing sector as we can see in China, Japan and the Asian Tigers. Growth of this sector has the potential of reducing poverty rate and unemployment, rapid structural changes and drive development.

	1990	2004	2018	2023
West Africa	14.82%	10.79%	10.43%	13.20%
South Korea	25.19%	26.11%	26.64%	24.31%
Malaysia	24.22%	21.53%	30.38%	23.05%

Source: World Development Indicator, 2023

INTRODUCTION (CONTINUED)

- In considering improvement in economy, the role of money cannot be overemphasised. This instrument is being monitored and controlled by the Apex Bank of the country.
- Monetary policy is being used to regulate the roles money play and interest rate is one major instrument that is being applied to apply monetary policy.
- MP therefore has been found to have great influence in shaping the economy towards better position.

STATEMENT OF THE PROBLEM

- Monetary policy and manufacturing policy are mutually reinforcing and it is therefore expedient to critically examine their interaction.
- However, the operations of fixed and flexible exchange rates among the Francophone and Anglophone countries of West Africa and formation of West African Economic and Monetary Union (WAEMU) and West Africa Monetary Zone (WAMZ) have called for investigation as to the possibility of adopting uniform policy to improve the economy.

RESEARCH QUESTIONS:

- What is the comparative impact of interest rates on the manufacturing output in West Africa?
- What is the comparative effectiveness of flexible and fixed exchange rates system on the output of manufacturing output in West Africa?

OBJECTIVES OF THE STUDY

- To analyse the comparative impact of interest rate on the output of manufacturing sector in West Africa;
- To investigate the comparative effectiveness of flexible and fixed exchange rates system on the output of manufacturing sector in West Africa;

THEORETICAL FRAMEWORK

- The theoretical framework for this study is based on the Neo-classical theory of investment and industry growth as contained in the theory of Hall and Jorgenson, (1971).

SOURCE OF DATA

- This study make use of secondary data for 13 countries obtained from the World Bank Development Indicator (WDI, 2023) covering 1975 through to 2022. The period is large enough to allow for a comprehensive examination of the comparative effectiveness of interest rate on manufacturing output in West African countries.

ECONOMETRICS TESTS

Correlation Analysis, Kao Cointegration, Cross Sectional Dependence Tests

Panel Unit Root Test, Panel Auto-regressive Distributed Lags

The model to be estimated is stated as:

$$\ln MRP_{it} = \delta_0 + \delta_1 INT_{it} + \delta_2 \ln MSB_{it} + \delta_3 EXR_{it} + \delta_4 GDPGR_{it} + \varepsilon_{it}$$

Result of Panel ARDL Estimation

Long Run Analysis								
Anglophone countries					Francophone countries			
Variable	Coef.	Std Error	t-Statistic	Prob	Coef	Std Error	t-Statistic	Prob
INT	-0.069	0.037	-1.847	0.068	0.037	0.075	0.488	0.626
MSB	0.0807	0.024	3.922	0.0002	0.582	0.303	1.917	0.057
EXR	0.0093	0.0047	1.969	0.0523	-0.281	0.808	-2.658	0.019
GDPGR	0.396	0.157	2.528	0.012	1.132	0.551	2.055	0.042
Short Run Analysis								
CointEq	-0.557	0.022	-2.511	0.013	-0.514	0.0278	-1.831	0.0378
D(INT)	-0.0074	0.0073	-1.0277	0.309	-0.012	0.007	-1.831	0.069
D(MSB)	-0.021	0.017	-1.239	0.219	0.0267	0.113	-0.235	0.281
D(EXR)	-0.531	0.045	-2.172	0.029	-0.047	0.005	-1.969	0.049
D(GDPGR)	-0.013	0.003	-3.009	0.003	0.0238	0.0279	0.853	0.395
C	1.099	0.431	2.551	0.0116	0.128	0.077	1.656	0.099

Source: Author's Computation, 2024

DISCUSSION

- The results from the findings showed that interest rate has negative and significant impact on manufacturing output in WAMZ countries. Contrariwise, it exhibit a positive impact on WAEMU countries
- This shows that as interest rate is falling, manufacturing sector will be experiencing growth and thereby getting improvement in output but in WAEMU, it means that as interest rate increases, manufacturing sector will experience growth in output.

CONCLUSION

- The findings from the study could therefore bring the conclusion that interest rate has differing significant impact on manufacturing output in WAMZ and WAEMU countries of West African.
- This therefore makes it impossible for West Africa countries to adopt uniform interest rate policy at promoting manufacturing sector's contribution to the economy of the sub-region.

RECOMMENDATIONS

- Interest rate should be reduced further in WAMZ in order to encourage the local production and promote the export of these products thereby increasing the manufacturing output within WAMZ countries.
- In the WAEMU, interest rate should be kept at increasing rate to encourage more savings thereby making credit available for investors and entrepreneurs so as to improve on local production and promote export of their products thereby increasing the manufacturing output.
- Both fixed and Flexible exchange rates regime should be encouraged in order to boost their impact at increasing the manufacturing output within West African countries

Thank you for Listening.