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## **Regional Trade Arrangements in Africa: Past Performance and the Way Forward**

Yongzheng Yang and Sanjeev Gupta

*Abstract:* Regional trade arrangements (RTAs) in Africa have been ineffective in promoting trade and foreign direct investment. Relatively high external trade barriers and low resource complementarity between member countries limit both intra- and extraregional trade. Small market size, poor transport facilities and high trading costs make it difficult for African countries to reap the potential benefits of RTAs. To increase regional trade and investment, African countries need to undertake more broad-based liberalization and streamline existing RTAs, supported by improvements in infrastructure and trade facilitation. Early action to strengthen the domestic revenue base would help address concerns over revenue losses from trade liberalization.

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## **Is There a Bank Lending Channel in Southern African Banking Systems?**

Mark Lungu

*Abstract:* Macroeconomic models currently used by policymakers generally assume that the functioning of financial markets can be fully summarized by financial prices, because the Modigliani and Miller (1958) theorem holds. However, the assumption that this theorem holds is questionable. This paper argues that there are frictions in the market which traditional models based on the Modigliani and Miller theorem fail to take into account in explaining how monetary policy and other shocks are transmitted to the economy and points to new directions. A comprehensive macroeconomic model should incorporate financial market interactions to enhance the understanding of the transmission mechanisms of monetary policy and other shocks. If market dynamics are not taken into account, macroeconomic models used by policymakers may point to wrong policy choices. Motivated by the lack of assessment of the recently launched financial reforms, deregulation, consolidations, financial innovations and joint payment systems, the paper assesses the process of monetary transmission mechanism by investigating evidence of a bank lending channel in SADC during the period 1990–2006 using data from the banking sector. Data from a panel of banks is used to identify shifts in the loan supply curve in response to changes in monetary policy using a vector autoregression (VAR) model. Although the results are mixed the paper generally reports the

existence of a bank-lending channel in all SADC countries in the sample. The take-off point for monetary policy effects differs from one country to another.

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## **Debt Relief and Credit to the Private Sector in African Countries**

Sana Harrabi, Lobna Bousrih and Mohammed Salisu

*Abstract:* The purpose of the paper is to empirically investigate the link between debt relief and credit to the private sector in African countries using a panel method over the period 1988–2004. The motivation for investigating the relationship between debt relief and credit to the private sector follows Christensen's (2004) hypothesis that domestic debt has a negative impact on the credit to private sector; therefore debt relief is expected to alleviate domestic debt and thereby create space for domestic credit, which if it is mostly constituted of public sector credit, crowds out credit to the private sector. The main results of the paper are as follows: (1) debt relief has a significant and positive effect on credit to the private sector in the short term; (2) in the long term, debt relief has positive effects on domestic credit to the private sector only when associated with good initial institutional quality.

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## **Productivités et externalités des dépenses publiques en zone UEMOA**

Wautabouna Ouattara

*Abstract:* The purpose of the present study is to estimate the public expenditure sector's respective roles in the 'productive' and 'non productive' components of the economy of WAEMU (West African Economic and Monetary Union) member states. An econometric analysis aims to reveal the externalities and/or relative factorial marginal productivity effects on the long-term economic growth rate. It appears that public capital expenditure positively affects relative factorial productivity but public consumption expenditure has no effect on economic growth. The study confirms the productive contribution of public infrastructures on GDP growth in the WAEMU area.

*Résumé:* L'objet de la présente étude est d'estimer les rôles respectifs des différentes composantes "productive" et "non productive" des dépenses du secteur public dans l'économie des pays de l'UEMOA. Une analyse économétrique vise à capter les effets de productivité marginale factorielle

relative et/ou d'externalités sur le taux de croissance économique en longue période. L'analyse montre que les dépenses en capital public ont un effet positif de productivité factorielle relative alors que les dépenses publiques de consommation ne laissent apparaître aucun effet sur la croissance. L'étude apporte une confirmation de la contribution productive des infrastructures publiques à la croissance du PIB dans l'espace UEMOA.

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## **Seasonality and Industrial Production in Uganda**

Gloria Kempaka Mugambe and Barry Reilly

*Abstract:* This paper explores the seasonal dimension of industrial production activity in Uganda using monthly data covering the period 1987 to 2000. Unit root tests and structural time series modelling are used to ascertain the nature of the seasonal component. The evidence in support of stochastic seasonality is not found to be overwhelming. In treating the seasonal effects as deterministic we find, in contrast to the existing evidence from industrialized economies, only a small part of the total variation in output is explained by seasonal factors suggesting a greater role for cyclical and random factors. However, there is some casual empirical evidence suggesting that industrial activity is related to weather conditions.