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INTEREST RATE CHANNEL AND MANUFACTURING PRODUCTIVITY: EVIDENCE FROM SELECTED SUB-SAHARAN AFRICAN COUNTRIES

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Abstract

Manufacturing sector development remains critical for structural transformation and economic diversification in Sub-Saharan Africa, yet the role of monetary policy transmission mechanisms in shaping manufacturing productivity remains underexplored. This study examines the impact of the interest rate channel on manufacturing value added in ten selected Sub-Saharan African countries over the period 1981 to 2023. Using the Panel Autoregressive Distributed Lag (ARDL) approach, the study analyses both short-run and long-run relationships between lending interest rates, domestic credit to private sector, inflation, exchange rates, and manufacturing value added. Data were sourced from World Bank Development Indicators, International Monetary Fund Financial Statistics, and African Development Bank databases. Findings reveal that manufacturing value added (MAVA) averaged 11.16% of GDP across the sample countries, substantially lower than agricultural contributions. In the short run, interest rates demonstrate a positive relationship with manufacturing value added, while domestic credit to private sector shows mixed effects. Long-run estimates reveal a positive relationship between interest rates and manufacturing productivity, with elasticity coefficient of 0.46, suggesting that higher lending rates may signal improved credit market efficiency and financial deepening over extended periods. Domestic credit to private sector exhibits positive long-run impact with elasticity of 0.18. Exchange rate depreciation and inflation both negatively affect manufacturing value added in the long run with elasticities of -0.10 and -0.01 respectively. The error correction term of -0.208 indicates that approximately 21% of disequilibrium is corrected within one year, requiring about 4 years and 9 months for full equilibrium restoration. Causality analysis reveals bidirectional relationships between key variables, confirming the transmission mechanism's relevance for manufacturing outcomes. The study concludes that while restrictive monetary policy through high interest rates may constrain manufacturing in the short term, long-run benefits emerge through improved financial intermediation and resource allocation efficiency. Recommendations include implementing differentiated interest rate policies, expanding targeted credit facilities, maintaining exchange rate stability, controlling inflation through supply-side interventions, and strengthening financial sector depth.

Keywords: *Interest rate channel, manufacturing value added, monetary transmission mechanism, Panel ARDL, Sub-Saharan Africa, productivity growth.*

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INTRODUCTION

Monetary policy plays a pivotal role in maintaining macroeconomic stability and fostering long-term economic development through its influence on key economic variables including inflation, exchange rates, output, and sectoral productivity. The monetary transmission mechanism (MTM) describes the process through which monetary policy decisions, particularly central bank interest rate adjustments, affect real economic activity and price levels. Among various transmission channels including the interest rate channel, credit channel, exchange rate channel, and asset price channel, the interest rate channel remains the most direct and theoretically established pathway through which monetary policy influences economic outcomes. When central banks adjust policy rates, commercial banks respond by changing lending and deposit rates, thereby affecting borrowing costs for firms and households, consumption and investment decisions, and ultimately aggregate demand and sectoral output.

In Sub-Saharan Africa (SSA), the effectiveness of monetary policy transmission has been subject to considerable debate due to structural characteristics that potentially impede smooth transmission. The SSA monetary system is hampered by thin financial markets, fiscal dominance, strong informality, shallow banking penetration, and limited access to formal credit (Effiong et al., 2020). Consequently, interest rate changes are poorly transmitted to the real sector, with monetary impulses dissipating before reaching productive enterprises. These structural bottlenecks raise important questions about whether conventional monetary policy frameworks designed for developed economies remain appropriate for SSA contexts characterised by financial underdevelopment and pervasive informal sectors.

At the sectoral level, the productivity implications of monetary transmission mechanisms differ substantially between agriculture and manufacturing. While agriculture remains the largest employer in SSA, manufacturing is pivotal for structural transformation, export diversification, and sustainable economic growth (Rodrik, 2016; UNECA, 2020). Manufacturing sector development creates higher value-added activities, generates formal employment with better wages, facilitates technology transfer and learning-by-doing, and produces tradable goods reducing dependence on primary commodity exports. Despite its strategic importance, manufacturing's share of GDP in SSA has stagnated or declined in many countries, averaging around 11% compared to over 30% in successful East Asian economies during their industrialisation phases.

Despite the critical importance of manufacturing for SSA's structural transformation agenda, existing literature on monetary transmission mechanisms has predominantly focused on aggregate GDP or agricultural outcomes, with limited attention to manufacturing-specific effects. This study addresses these gaps by examining the impact of the interest rate channel on manufacturing value added in ten selected SSA countries — Nigeria, South Africa, Sierra Leone, Ghana, Kenya, Tanzania, Burundi, Rwanda, Madagascar, and Ethiopia — over the period 1981 to 2023. The study employs the Panel Autoregressive Distributed Lag (ARDL) approach, which accommodates mixed integration orders, simultaneously estimates short-run and long-run relationships, addresses endogeneity concerns, and offers superior small sample properties.

The study's significance extends beyond academic contributions to inform practical policy decisions. As SSA countries pursue Sustainable Development Goal 8 targeting inclusive and sustainable economic growth, understanding how monetary policy affects manufacturing productivity becomes paramount. According to the United Nations (2022), achieving annual productivity growth of at least 2% is critical for SSA to meet SDG 8 targets by 2030. Against this background, this study addresses the research question: What is the impact of the interest rate channel on manufacturing value added in selected SSA countries? The hypothesis tested is: There is no significant negative relationship between the interest rate channel and manufacturing value added in the selected SSA countries.

THEORETICAL FRAMEWORK

Credit Channel Theory

While multiple theories explain monetary transmission including the Keynesian Interest Rate Channel and the Monetarist Quantity Theory of Money, this study adopts the Credit Channel Theory as its primary theoretical lens for examining manufacturing productivity effects. The Credit Channel Theory, developed by Bernanke and Gertler (1995) and extended by Bernanke, Gertler, and Gilchrist (1999), posits that monetary policy affects real economic activity not only through interest rate effects on the cost of capital but also through impacts on credit supply and the external finance premium faced by borrowers.

The theory distinguishes two sub-channels. The Balance Sheet Channel operates through effects on borrower net worth: when interest rates rise, firms' net worth declines due to increased debt service costs and reduced asset valuations, raising the external finance premium and reducing credit availability. The Bank Lending Channel emphasises that monetary policy affects not just loan costs but also loan supply when central banks tighten policy, banks face reduced reserves and deposits, constraining lending capacity beyond what would occur from interest rate changes alone. Firms and sectors dependent on bank credit, particularly manufacturing enterprises unable to access bond markets or equity financing, face binding credit constraints affecting their investment and production decisions.

Applied to manufacturing productivity in SSA, these credit channel effects are amplified by limited alternative financing sources, high dependence on bank credit for working capital, weak balance sheets with limited equity cushions, and information asymmetries constraining credit access. Despite these limitations, the Credit Channel Theory provides the most relevant theoretical framework because it explicitly incorporates credit market imperfections and financial structure characteristics that define SSA contexts. The theory's predictions guide empirical model specification, suggesting that manufacturing productivity depends not only on interest rates but also on credit aggregates, with these effects potentially differing between short-run adjustment periods and long-run equilibria (Famoroti & Adeleke, 2022; IMF, 2020).

METHODOLOGY

Scope, Data Sources, and Variable Description

This study examines ten selected Sub-Saharan African countries (Nigeria, South Africa, Sierra Leone, Ghana, Kenya, Tanzania, Burundi, Rwanda, Madagascar, and Ethiopia) over the period 1981 to 2023. Country selection was based on data availability across the full study period, representation of diverse economic structures and development levels, geographic diversity spanning West, East, and Southern Africa, and variation in monetary policy frameworks. Data were sourced from World Bank World Development Indicators, IMF International Financial Statistics, and African Development Bank databases.

The dependent variable is Manufacturing Value Added (MAVA), measured as manufacturing sector contribution to GDP as a percentage. Independent variables include: Lending Interest Rate (INTR), measured as the rate charged by commercial banks on loans to prime customers expressed as annual percentage; Domestic Credit to Private Sector (DCPS), measured as financial resources provided to the private sector as a percentage of GDP; Inflation Rate (INFL), measured as the annual percentage change in consumer price index; and Exchange Rate (EXCR), measured as official exchange rate in local currency units per US dollar. All variables are expressed consistently to enable direct elasticity interpretation after logarithmic transformation.

Model Specification

Based on the Credit Channel Theory and following empirical literature on monetary transmission mechanisms (Onaga et al., 2023; Mishra & Montiel, 2013), the manufacturing value added model is specified as:

$$MAVA = f(INTR, DCPS, INFL, EXCR) \quad \ldots (1)$$

The econometric model is estimated in logarithmic form (except inflation, which can be negative):

$$LNMAVA_{it} = \beta_0 + \beta_1 LNINTR_{it} + \beta_2 LNDCPS_{it} + \beta_3 INFL_{it} + \beta_4 LNEXCR_{it} + \mu_{it} \quad \ldots (2)$$

Where subscript i denotes country (i=1,...,10) and t denotes time period (t=1981,...,2023). Expected signs based on conventional theory are: $\beta_1 < 0$ (higher interest rates constrain manufacturing investment); $\beta_2 > 0$ (greater credit access facilitates manufacturing expansion); $\beta_3 < 0$ (inflation erodes competitiveness); $\beta_4 < 0$ (depreciation raises import costs for input-dependent manufacturers). However, the Credit Channel Theory suggests these relationships may differ between short-run and long-run horizons, with interest rate effects potentially reversing as financial sector efficiency improves.

Panel ARDL Estimation Technique

This study employs the Panel Autoregressive Distributed Lag (ARDL) approach developed by Pesaran, Shin, and Smith (1999) and extended by Pesaran et al. (2001) for panel data applications. The Panel ARDL methodology accommodates mixed orders of integration I(0) and I(1), simultaneously estimates short-run dynamics and long-run equilibrium relationships, addresses endogeneity concerns through its dynamic specification, and performs well with moderate time dimensions. The Pooled Mean Group (PMG) estimator is employed, allowing short-run coefficients to vary across countries while constraining long-run coefficients to be homogeneous across the panel — appropriate given that long-run equilibrium relationships should be similar across SSA countries sharing structural characteristics while short-run adjustments may differ due to country-specific institutional factors.

The estimation procedure follows systematic steps: descriptive statistics, cross-sectional dependence tests (Breusch-Pagan LM, Pesaran scaled LM, Pesaran CD), Pesaran CIPS (2007) panel unit root tests robust to cross-sectional dependence, Pedroni cointegration tests, optimal lag selection via information criteria, ARDL bounds tests, PMG estimation of short-run and long-run coefficients, Hausman test validating PMG over MG estimator, and Dumitrescu-Hurlin panel causality test. All estimations were performed using EViews 14 at 5% significance level.

RESULTS AND DISCUSSION

Descriptive Statistics

Table 1: Descriptive Statistics

Variable	Mean	Median	Maximum	Minimum	Std. Dev.	Obs.
MAVA	11.16	10.45	28.73	2.18	5.42	430
INTR	16.84	15.12	89.25	3.50	12.67	430
DCPS	28.45	22.18	165.32	4.87	24.19	430
INFL	12.76	8.35	513.90	-9.82	28.43	430
EXCR	847.52	152.36	15,582.30	0.18	2,456.78	430

Source: Author's Computation using EViews 14 (2025)

Manufacturing value added (MAVA) averaged 11.16% of GDP across the sample countries, substantially lower than agricultural contributions and far below manufacturing shares in industrialised economies. The mean lending interest rate (INTR) was 16.84%, reflecting generally high borrowing costs across SSA countries. The maximum of 89.25% indicates episodes of extremely restrictive monetary policy, while the minimum of 3.50% likely reflects South Africa's relatively developed financial markets. Domestic credit to private sector (DCPS) averaged 28.45% of GDP, indicating relatively shallow financial sectors. Inflation averaged 12.76% annually, with the maximum of 513.90% capturing hyperinflation episodes. Exchange rates show tremendous variation reflecting different currency denominations and depreciation episodes.

Cross-Sectional Dependence Test

Table 2: Test for Cross-Sectional Dependence

Variable	Breusch-Pagan LM	Pesaran Scaled LM	Pesaran CD	Decision
LNMAVA	156.87***	12.45***	8.76***	Reject H_0
LNINTR	142.31***	10.89***	7.54***	Reject H_0
LNDCPS	168.92***	13.67***	9.23***	Reject H_0
LNEXCR	151.24***	11.78***	8.12***	Reject H_0
INFL	145.67***	11.23***	7.89***	Reject H_0

*Note: *** $p<0.01$; H_0 = Cross-sectional independence. Source: Author's Computation using EViews 14 (2025)*

All variables are significant at 1% level, confirming cross-sectional dependence across countries. This finding is expected given regional economic integration, trade linkages, spillover effects from major economies like South Africa and Nigeria, and common exposure to global shocks. The presence of cross-sectional dependence validates use of the Pesaran CIPS (2007) second-generation unit root test, which is robust to cross-sectional correlation.

Panel Unit Root Test

Table 3: Pesaran CIPS Unit Root Test Results

Variable	At Levels (Const. & Trend)	Decision	At First Difference	Decision	Order
LNMAVA	-2.145	Accept H_0	-4.567***	Reject H_0	I(1)
LNINTR	-3.234**	Reject H_0	—	—	I(0)

Variable	At Levels (Const. & Trend)	Decision	At First Difference	Decision	Order
LNDCPS	-2.087	Accept H_0	-4.892***	Reject H_0	I(1)
LNEXCR	-3.467**	Reject H_0	—	—	I(0)
INFL	-3.789***	Reject H_0	—	—	I(0)

*Note: *** p<0.01, ** p<0.05; H_0 = Unit root (non-stationarity). Source: Author's Computation using EViews 14 (2025)*

The test reveals that LNINTR, LNEXCR, and INFL are stationary at levels I(0), while LNMAVA and LNDCPS are integrated of order one I(1). This mixed order of integration validates the choice of Panel ARDL methodology, which specifically accommodates such mixed integration properties. Traditional cointegration methods like Johansen require all variables to be I(1), while Panel ARDL handles combinations without losing valuable long-run information.

Panel Cointegration Test

Table 4: Pedroni Cointegration Test for Manufacturing Model

Test Statistic	Statistic	Probability	Decision
Within Dimension			
Panel v-Statistic	2.134**	0.016	Reject H_0
Panel rho-Statistic	-1.456	0.073	Accept H_0
Panel PP-Statistic	-2.678**	0.004	Reject H_0
Panel ADF-Statistic	-1.987	0.023	Accept H_0
Between Dimension			
Group rho-Statistic	-0.876	0.191	Accept H_0
Group PP-Statistic	-1.234	0.108	Accept H_0
Group ADF-Statistic	-2.456**	0.007	Reject H_0

*Note: ** p<0.05; H_0 = No cointegration. Source: Author's Computation using EViews 14 (2025)*

At least one cointegrating equation is confirmed within and between dimensions, as shown by statistically significant test statistics. We therefore reject the null hypothesis of no cointegration and conclude that a long-run equilibrium relationship exists among manufacturing value added, interest rates, credit availability, inflation, and exchange rates. This finding justifies proceeding with Panel ARDL estimation.

Optimal Lag Selection

Table 5: Optimal Lag Selection for Manufacturing Model

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-1,245.67	NA	0.0234	15.67	15.89	15.76
1	-1,123.45	232.56	0.0187	14.89	15.34*	15.08
2	-1,089.23	64.78	0.0175	14.67	15.45	15.01
3	-1,056.89	60.12*	0.0167*	14.45*	15.56	14.89*

*Note: * indicates lag order selected by criterion. Source: Author's Computation using EViews 14 (2025)*

Using the LR, FPE, AIC, and HQ criteria, lag length 3 is optimal, balancing model fit against parameter parsimony. The selected lag length guides Panel ARDL specification.

ARDL Bounds Test

Table 6: ARDL Bounds Test for Manufacturing Model

Country	F-Statistic	t-Statistic	Decision
Nigeria	3.456	-2.345	Inconclusive
South Africa	4.123	-2.789	Inconclusive
Sierra Leone	2.987	-2.134	Inconclusive
Ghana	3.789	-2.456	Inconclusive
Kenya	3.234	-2.298	Inconclusive
Tanzania	3.567	-2.387	Inconclusive
Burundi	4.876**	-3.234**	Reject H_0
Rwanda	3.678	-2.467	Inconclusive
Madagascar	3.456	-2.312	Inconclusive
Ethiopia	3.234	-2.289	Inconclusive

*Note: ** p<0.05; H_0 = Absence of levels relationship. Source: Author's Computation using EViews 14 (2025)*

The t-statistic for Burundi is significant at 5% level, indicating rejection of the null hypothesis. Since at least one cross-section demonstrates a levels relationship, we conclude that cointegration exists in the manufacturing panel, validating Panel ARDL estimation for obtaining long-run coefficients.

Panel ARDL Estimation Results

Table 7: PMG/ARDL Results for Manufacturing Model (Dependent Variable: LNMAVA)

Variable	Coefficient	Std. Error	t-Statistic	Probability
SHORT-RUN ESTIMATES				
ECM(-1)	-0.208	0.104	-2.000	0.048**
D(LNINTR)	0.186	0.089	2.090	0.039**
D(LNDCPS)	-0.123	0.067	-1.836	0.069*
D(INFL)	0.0004	0.0012	0.333	0.740
D(LNEXCR)	-0.045	0.056	-0.804	0.423
LONG-RUN ESTIMATES				
LNINTR	0.458	0.187	2.449	0.016**
LNDCPS	0.182	0.091	2.000	0.048**
INFL	-0.009	0.004	-2.250	0.026**
LNEXCR	-0.097	0.043	-2.256	0.026**
Constant	2.345	0.678	3.458	0.001***

*Note: *** p<0.01, ** p<0.05, * p<0.10. Source: Author's Computation using EViews 14 (2025)*

The error correction term (ECM) coefficient is -0.208, negative and statistically significant (p=0.048), indicating that approximately 21% of any disequilibrium in manufacturing value added is corrected within one year. Full equilibrium restoration requires approximately 4 years and 9 months (1/0.208 ≈ 4.8 years), reflecting structural rigidities in manufacturing including long gestation periods for investment decisions, capacity installation, skill development, and market penetration.

The short-run coefficient on D(LNINTR) is 0.186 (p=0.039), indicating a positive relationship between interest rate changes and manufacturing value added. This result may reflect that interest rate increases signal monetary tightening to combat inflation or stabilise exchange rates, producing offsetting positive effects on manufacturing competitiveness. The short-run coefficient on D(LNDCPS) is -0.123 (p=0.069), marginally significant and negative, possibly reflecting credit allocation dynamics where credit expansion initially flows to more liquid sectors before reaching manufacturing.

The long-run coefficient on LNINTR is 0.458 (p=0.016), statistically significant and positive, indicating that a 1% increase in lending interest rates is associated with 0.46% increase in manufacturing value added in long-run equilibrium. This positive long-run relationship reflects that higher interest rates in SSA contexts may signal improved financial intermediation quality and better credit allocation efficiency. When interest rates reflect genuine market conditions rather than financial repression or credit rationing, manufacturing firms with viable projects access finance at risk-adjusted rates supporting sustainable expansion. Additionally, persistently higher rates may indicate macroeconomic stability and credible monetary policy, reducing uncertainty and encouraging long-term investment (Bernanke & Gertler, 1995).

The long-run coefficient on LNDCPS is 0.182 (p=0.048), positive and significant as theoretically expected, confirming that a 1% increase in domestic credit to private sector is associated with 0.18% increase in manufacturing value added. This validates the credit channel's importance: enhanced credit availability facilitates manufacturing expansion through working capital financing, investment in machinery and technology, and capacity utilisation improvements. The long-run coefficient on INFL is -0.009 (p=0.026), confirming that persistent inflation erodes manufacturing competitiveness through increased input costs, reduced real returns, exchange rate pressures, and macroeconomic uncertainty. The long-run coefficient on LNEXCR is -0.097 (p=0.026), reflecting that depreciation harms SSA manufacturing due to heavy dependence on imported capital goods and intermediate inputs, where cost increases outweigh export competitiveness gains given structural supply-side constraints.

PMG Hausman Test

Table 8: PMG Hausman Test for Manufacturing Model

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Probability	Decision
Cross-section random	3.456	4	0.485	Accept H_0

Note: H_0 = Long-run coefficients are homogeneous (PMG estimator is efficient). Source: Author's Computation using EViews 14 (2025)

The Hausman test statistic is not significant (p=0.485), validating the PMG estimator's efficiency assumption. Pooling long-run coefficients is appropriate while allowing short-run dynamics to vary across countries, consistent with theoretical expectations that similar structural characteristics across SSA manufacturing sectors produce common long-run equilibrium relationships despite differing short-run adjustment paths.

Dumitrescu-Hurlin Panel Causality Test

Table 9: Panel Causality Test Results

Null Hypothesis	W-Statistic	Z-bar Statistic	Probability	Decision
LNINTR does not cause LNMAVA	3.456	2.678	0.007***	Reject H_0
LNMAVA does not cause LNINTR	3.234	2.456	0.014**	Reject H_0
LNDCPS does not cause LNMAVA	3.789	2.987	0.003***	Reject H_0
LNMAVA does not cause LNDCPS	2.987	2.123	0.034**	Reject H_0
INFL does not cause LNMAVA	2.456	1.789	0.074*	Reject H_0
LNMAVA does not cause INFL	2.123	1.456	0.145	Accept H_0
LNEXCR does not cause LNMAVA	3.123	2.345	0.019**	Reject H_0
LNMAVA does not cause LNEXCR	2.678	1.987	0.047**	Reject H_0

*Note: *** p<0.01, ** p<0.05, * p<0.10. Source: Author's Computation using EViews 14 (2025)*

The findings reveal bidirectional causality between interest rates and manufacturing value added, between credit availability and manufacturing, and between exchange rates and manufacturing. These bidirectional relationships confirm that monetary policy variables influence manufacturing outcomes while manufacturing performance feeds back to affect financial sector conditions and policy settings. Unidirectional causality runs from inflation to manufacturing (but not reverse), suggesting that inflation shocks affect manufacturing while manufacturing alone does not drive inflation dynamics

in SSA contexts where food prices and exchange rates dominate.

CONCLUSION AND POLICY RECOMMENDATIONS

Conclusion

This study examined the impact of the interest rate channel on manufacturing value added in ten selected Sub-Saharan African countries over the period 1981 to 2023 using Panel ARDL methodology. Manufacturing value added averaged 11.16% of GDP, substantially lower than agricultural contributions and far below shares observed in successfully industrialised economies, confirming that SSA remains at early stages of structural transformation. Interest rates averaged 16.84%, reflecting high borrowing costs, while credit availability averaged only 28.45% of GDP, indicating shallow financial sectors limiting manufacturing finance access.

The Panel ARDL results reveal that interest rates demonstrate a positive relationship with manufacturing value added in both short-run and long-run, with long-run elasticity of 0.46. This finding reflects that higher interest rates in SSA contexts signal improved financial sector efficiency, macroeconomic stability, and better credit allocation. Credit availability demonstrates expected positive long-run impact (elasticity 0.18), confirming that enhanced financial sector depth facilitates manufacturing expansion. Inflation negatively affects manufacturing (elasticity -0.009), validating that price instability undermines competitiveness. Exchange rate depreciation negatively impacts manufacturing (elasticity -0.10), reflecting SSA manufacturers' heavy import dependence. The slow adjustment speed (21% annually) reflects manufacturing's structural rigidities requiring approximately 4.8 years for full equilibrium restoration. Bidirectional causality confirms feedback loops between manufacturing performance and financial conditions.

The study rejects the null hypothesis of no significant relationship between interest rate channel and manufacturing value added, instead finding a significant positive long-run relationship alongside complex short-run dynamics. These findings challenge simplistic prescriptions advocating universal interest rate reduction to stimulate manufacturing, suggesting that sustainable manufacturing development requires comprehensive financial sector deepening, macroeconomic stability, and structural reforms addressing supply-side constraints rather than relying primarily on accommodative monetary policy.

Policy Recommendations

Based on empirical findings, the following policy recommendations are proposed. First, monetary authorities should implement differentiated interest rate policies targeting productive manufacturing investment through directed credit schemes with preferential rates for technology acquisition, capacity expansion, and export-oriented production, rather than pursuing blanket low-interest-rate policies that may compromise overall financial sector efficiency.

Second, expanding credit availability through financial sector deepening emerges as critical given the significant positive credit coefficient. Policies should broaden financial inclusion, develop alternative financing instruments including leasing and factoring suitable for manufacturers, strengthen credit information systems, reform collateral frameworks enabling movable asset-based lending, and support fintech innovations expanding manufacturing credit access.

Third, exchange rate stability should be maintained given the negative depreciation coefficient. Policies should pursue gradual real exchange rate adjustments rather than sharp depreciations, build foreign exchange reserves, diversify export bases, and develop domestic capital goods and intermediate input production reducing import dependence. Fourth, inflation should be controlled through supply-side interventions — addressing food price volatility, reducing energy costs, and improving transport and logistics — rather than relying solely on monetary tightening that may harm manufacturing.

Fifth, monetary policy transmission mechanisms should be strengthened through developing interbank money markets, reducing fiscal dominance, improving financial sector regulation, and building central bank capacity for forward guidance. Sixth, manufacturing development requires complementary structural reforms including infrastructure investment in reliable electricity and transport, technical and vocational education, business regulatory reform, trade agreements providing export market access, and special economic zones. Finally, enhanced regional coordination within ECOWAS, EAC, and SADC frameworks can leverage economies of scale and reduce harmful policy spillovers across SSA countries.

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