Saving, Investmentt and Capital mobility in Sub-Saharan Africa

Shawa, Ken Chamuva
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Abstract:

The present work sets out to achieve three objectives: to examine the economic factors that affect private saving in Sub-Saharan Africa, to examine the economic factors that affect private investment in Sub-Saharan Africa and to examine the co-movements of saving and investment in Sub-Saharan Africa using a capital mobility model. The study employs dynamic GMM models to analyze determinants of private saving and private investment utilizing both the Arellano-Bond (1991) and Arellano-Bover (1995)lBlundell-Bond (1998) approaches. To analyze capital mobility the study uses static panels employing fixed effects models. The dynamic GMM estimation results show that the private saving rate is persistent as confirmed by both the non-parsimonious and parsimonious models. Urbanization ratio, youth dependency ratio, elder dependency ratio, per capita income growth, terms of trade growth, public saving rate, general government consumption, real interest rate, credit to private sector, inflation and current account deficit exert a significant influence on the private saving rate. On the other hand, per capita income and M2/GDP whose coefficients are only marginally significant in the non-parsimonious model do not enter the parsimonious model. Apart from showing that the economic policy framework should take into account the persistent nature of the private saving rate, there are other policy insights from the estimation of the saving model. There is especially the need to pursue, growth-enhancing policies, to broaden the tax base, to implement trade-enhancing polices, to improve the functioning of the financial system and to design polices for prudent management of domestic resources in order to reduce current account deficits. As regards the dynamic private investment model, results show that the private investment rate is persistent and that, current account deficit, inflation, per capita income, per capita income growth, population growth, public investment rate, real interest rate, total debt service/GDP, debt stock/GDP, terms of trade growth, trade openness, and the political environment jointly exert a significant impact on private investment. Again, the policy framework should take into account the persistent nature of the private investment rate, bearing in mind the important adjustment effects of the private investment rate. Based on the results a broad range of policies has been suggested including, inflation reduction, improvement in infrastructure, efficient utilization of domestic resources, export promoting policies, and conflict resolution mechanisms to create political environments that attract private investment. As for capital mobility, the study confirms the Feldstein-Horioka puzzle, both for the whole sample and the sub-samples.