A Comparative Analysis of the Effect of Exchange Rate Volatility on Exports in the CFA and Non-CFA Countries of Africa

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ABSTRACT Exchange rates have been highly volatile in Africa especially since the move to a floating exchange rate system with negative repercussions for trade, investment and growth. The paper empirically compares the effect of exchange rate volatility on the exports of the panel of Communaute Financiere Africaine (CFA) countries with that of the non-CFA counterparts during the period 1986-2006. Exchange rate volatility series were generated utilizing the GARCH model. These series were then incorporated into an export equation and estimated using the OLS, fixed effect, first difference GMM and systems GMM equation techniques. The results reveal that the system GMM technique performed better than the other estimation techniques. Exchange rate volatility was found to negatively impinge on the exports of both panels of countries. However, exchange rate volatility has a larger effect on the panel of the non-CFA countries than on the CFA. The paper concludes on the need to take appropriate monetary and fiscal policy actions to stem the rising exchange rate volatility.