World Academy of Science, Engineering and Technology
International Journal of Economics and Management Engineering
Vol:19, No:02, 2025

Exploring the Impact of Domestic Credit Extension, Government Claims, Inflation, Exchange Rates, and Interest Rates on Manufacturing Output: A Financial Analysis.

Authors : Ojo Johnson Adelakun

Abstract : This study explores the long-term relationships between manufacturing output (MO) and several economic determinants, interest rate (IR), inflation rate (INF), exchange rate (EX), credit to the private sector (CPSM), gross claims on the government sector (GCGS), using monthly data from March 1966 to December 2023. Employing advanced econometric techniques including Fully Modified Ordinary Least Squares (FMOLS), Dynamic Ordinary Least Squares (DOLS), and Canonical Cointegrating Regression (CCR), the analysis provides several key insights. The findings reveal a positive association between interest rates and manufacturing output, which diverges from traditional economic theory that predicts a negative correlation due to increased borrowing costs. This outcome is attributed to the financial resilience of large enterprises, allowing them to sustain investment in production despite higher interest rates. In addition, inflation demonstrates a positive relationship with manufacturing output, suggesting that stable inflation within target ranges creates a favourable environment for investment in productivity-enhancing technologies. Conversely, the exchange rate shows a negative relationship with manufacturing output, reflecting the adverse effects of currency depreciation on the cost of imported raw materials. The negative impact of CPSM underscores the importance of directing credit efficiently towards productive sectors rather than speculative ventures. Moreover, increased government borrowing appears to crowd out private sector credit, negatively affecting manufacturing output. Overall, the study highlights the need for a coordinated policy approach integrating monetary, fiscal, and financial sector strategies. Policymakers should account for the differential impacts of interest rates, inflation, exchange rates, and credit allocation on various sectors. Ensuring stable inflation, efficient credit distribution, and mitigating exchange rate volatility are critical for supporting manufacturing output and promoting sustainable economic growth. This research provides valuable insights into the economic dynamics influencing manufacturing output and offers policy recommendations tailored to South Africa’s economic context.

Keywords : domestic credit, government claims, financial variables, manufacturing output, financial analysis
Conference Title : ICTBEL 2025 : International Conference on Trade, Business and Economic Law
Conference Location : Amsterdam, Netherlands
Conference Dates : February 03-04, 2025