Abstract

This paper presents a dynamic heterogeneous panel data model in which the reaction of the real exchange rate to external finance includes interactions with the measure of the trade openness, fiscal, monetary and *nominal* exchange rate policies of twenty-four primary-exporting Sub-Saharan African countries from 1978-2001. As expected, a rise in international transfers by itself exerts an upward pressure on the real exchange rate. However, this estimated positive effect of capital inflows was offset by associated policy interventions to liberalise trade controls and address problems of credit rationing in the private sector. This augurs well for the achievement of the Millennium Development Goals.

Keywords: Capital inflows, real exchange rates, Sub-Saharan Africa, economic policies

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