

## **The Purchasing Power Parity and the Symmetry, Proportionality Conditions: Panel Cointegration Evidence from African Countries**

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This paper examines the Purchasing Power Parity (PPP) hypothesis for eleven African countries with relatively high inflation and fixed exchange rate regime over the period 1960-2002. Recent advances in the econometrics of non-stationary heterogeneous panel methods have been applied to test the robustness of the PPP. The paper also investigates the symmetry /proportionality conditions on PPP and the causal-link between exchange rates and prices. Using the Pedroni test (1995, 1997a, 2000) and the Larson et al procedure (2001), we find empirical support for weak PPP in the bilateral exchange rate of dollar vis-à-vis currencies of eleven African countries. The symmetry/proportionality and the symmetry restrictions are found to be strongly rejected. The weak exogeneity test shows a causal relationship running essentially from prices to exchange rate with slow speed of mean reversion (25% over a year on average), i.e, a half-life of PPP deviations of 2.5 years, which is almost near to the lower bound of Rogoff 's (1996) 3-5 year range.

Fiscal Policy