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Finance–Growth Nexus: New Insights from the West African Region

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ABSTRACT

This article examines the impact of financial development on economic growth in the West African region accounting for both structural breaks and cross-sectional dependency. Although the panel data study reveals that financial development has a positive impact on economic growth in the entire West African region, the disaggregated data analysis discovers that variations in financial development can only explain variations in economic growth in about 75% of the countries in West Africa. This study has succeeded in revealing the countries where finance accelerates growth and countries where it does not. The weak impact of finance on growth in some of the countries could be due to low income level, low level of financial development, weak institutions, macroeconomic instability, and high inflation rates. Knowing where finance spurs growth and where it does not is fundamental for policymaking.

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