

## **INFLUENCE OF MACROECONOMIC STABILITY ON FINANCIAL DEVELOPMENT IN DEVELOPING ECONOMIES: EVIDENCE FROM WEST AFRICAN REGION**

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This paper examines the effects of macroeconomic stability on financial development in the West African region. Macroeconomic stability is measured based on five Maastricht Criteria's variables namely inflation rate, real exchange rate, government debt, fiscal deficit and real interest rate. The study employs dynamic models on the panel data. We find that macroeconomic stability has significant effects on financial development in the region. Specifically, inflation rate, real exchange rate and fiscal deficit have negative effects, while the effects of government debt and real interest rate are positive. The implication of this study is that macroeconomic stability variables are determinants of financial development. Hence, developing economies should strive to achieve macroeconomic stability in order to drive financial development, with a view to achieving sustainable economic development.

*Keywords:* Macroeconomic stability; financial development; economic growth; developing economies.

JEL Classifications: O47, G21, G23

### **1. Introduction**

The nexus between financial development and economic growth has received considerable attention in recent years. Although majority of the studies conclude that financial development has the capacity to spur economic growth, the impact depends on the level of

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